

THE GREEN DEAL PROVIDERS' GROUP

WORK GROUP ON SMEs AS GREEN DEAL PROVIDERS

REPORT TO GDPG STEERING GROUP

The overall intention is for as many as possible to participate in the Green Deal to help improve the thermal & energy performance of buildings. Small- and medium-size enterprises (SMEs) raise genuine concern that the Department of Energy & Climate Change's (DECC) proposals are easier to be satisfied by large, vertically-integrated businesses who SMEs fear will dominate the market.

For most SMEs, the requirements and implications of being a licenced Green Deal Provider are simply unfeasible. Many SMEs are grappling with whether to become an authorised assessor and/or installer - let alone be a Provider. The purpose of this Group was to explore if, where & how SMEs could become Providers, identifying barriers specific to their size & type of operation, and suggest ways these might be overcome.

PROCESS

As preparation, the Work Group drew up a handful of issues we felt likely to be cited as barriers as a baseline to gauge incoming views. Without prejudice, these points were: (a) obtaining finance (b) necessary licences (c) offering warranties & guarantees (d) sufficient insurance (e) standards of consumer protection (f) access to ECO funds and (g) IT & back-office systems.

Desk Review

We gathered and read any available material known to exist - such as:

- DECC's Green Deal and ECO consultation document
- relevant responses submitted by SMEs to the above consultation exercise
- notes from SME Roundtable Events conducted in February 2012 by the EEPfB.

Trade Associations

Written invitations were sent to a dozen associations offering them the chance to present arguments/evidence about their members becoming a Provider. The aim was to identify obstacles they believe their members face. Trade associations were encouraged to outline their top 5 concerns and the solutions they feel would smooth the way for those they speak for.

Telephone Interviews

We contacted several SMEs known to be exploring the idea of being a Provider. Three discussed their top 5 concerns and preferred remedies, relaying 'real world' problems encountered.

CONTRIBUTIONS

Most contributions strayed beyond our agreed Project Brief - and raised issues relevant to other GDPG Work Groups. This is understandable. We were reassured the issues we suspected at the outset would be raised by contributors were, by and large, the very same ones we received.

There was widespread recognition that SMEs firms carrying out building repair, maintenance & improvement work (RMI) are in direct contact with property owners on an everyday basis. This means general builders & allied trades - as well as specialist contractors/installers - are handily placed to give advice on what work could be appropriate for homes & workplaces (esp. at the so-called trigger points).

EVIDENCE

Contracting

A contractor we spoke to does CERT & CESP work and faces hard choices when the schemes cease in a few months. He worries about the predicted drop in levels of loft & cavity wall insulation. He will have to make staff redundant this Christmas as he re-aligns his operations accordingly. This contractor is looking at what he needs to do to become a Provider. He wonders if it is his 'least worst' option - despite not knowing precisely what it entails or will cost his business.

Social Enterprises

A SME 'not for profit' enterprise involved in project management & training consultancy talked to us about area-based schemes. It uses local installer micro-businesses for its energy-efficiency & renewable energy work. The charity is contemplating whether (or not) to be a Provider in its own right. They may prefer to form a partnership with an ECO provider instead.

The chief executive said DECC's decision to drop the requirement for surety bonds was very welcome. Had this remained, they could not be a Provider. Other crucial issues:

- continuing sources of finance - especially from cash-strapped local authorities
- access to ECO funds
- payment terms and cashflow for both Green Deal and ECO work.

A second 'not for profit' enterprise we spoke to is a SME looking to be a Green Deal Provider. It sees itself as an 'umbrella' for others. It will do the marketing, generate leads and deal with the end-customer - but engage other SMEs to do the RMI work.

These charities carry out contract work with (or for) local authorities. Both are worried about funding - given town hall spending cuts and frozen levels of Council Tax. They asked about the promised guidance from DECC on the Home Energy Conservation Act 1995. Both were keen to hear what ministers introduce as local government responsibilities under HECA.

DISCUSSION

The requirements of being a Provider are more easily met by large, vertically-integrated national businesses, which may mean they dominate this new market from the outset. It should not be forgotten the Green Deal is un-charted territory for everyone. Over time, it is fair to assume SMEs will put their own offer into the market that could work for them and their customers.

SMEs appear to have three routes open to them:

1. be a partner or contractor to an authorised Provider
2. deliver via a Merchant Provider (such models are being discussed)
3. or become a Provider in their own right.

1. SME is partner or contractor to a Provider

A commercial business or local authority Provider handles all aspects of a Green Deal project except that instead of using its own staff, it contracts certain functions out to SMEs.

2. SME delivers via a builders' merchant Provider

Similar to the above except that merchants are not usually the primary point-of-contact with households. SME builders & allied trades, or specialist contractors/installers, offer the Green Deal to their existing customers. In effect, the SMEs become the merchants' sales force.

3. SMEs become Providers in their own right

This is the option the Work Group were established to look at. The two above are more about ensuring SMEs are involved in the Green Deal. We concentrated on this option.

Other themes that emerged from contributions received can best be summarised as:

- the usual, everyday pressures faced by SMEs due to their size & type of operation
- new or different burden(s) specific to Green Deal compliance - e.g. consumer credit licence, accreditation by UKAS, and warranties, guarantees & insurance
- threat of regulation - notably the proposals on consequential improvements under Part L of the Building Regs - concern that voters sign Green Deal Plans with national Providers and deny work to SMEs they would normally use because the project is above/beyond their capability.

ISSUES AND COMMENT

Finance	equal access and fair treatment of small GD Providers when lenders check the creditworthiness of borrowers
Interest rates	rates offered should be same for customers of SMEs as others - lending risk must be based on the <u>customer</u> , not the Provider, so there is no disadvantage in being a small GD Provider
Sources of finance	desirable to have alternatives to TGDFC to ensure competing sources are available and cost of money is kept as low as possible - a rival could be regional aggregator (rather than national) that lends to Providers who are SME firms, or community-owned SME ventures
ECO funds	open and straightforward way to obtain ECO monies - either through proposed brokerage (possibly by aggregating lots into bundles) - or securing contracts direct from energy suppliers (as some do now for CERT & CESP)
Selling ECO via the Brokerage	SMEs may need to have an experienced broker on the payroll - or be aligned with a larger trading operation

Home Energy Conservation Act 1995.	SMEs with local authority contracts worry about uncertainty surrounding decision to retain HECA - they await the DECC guidance
£200 million government incentive	open and straightforward way for SMEs to offer their customers the method of claiming from the proposed cashback scheme
Settling payments	Green Deal & ECO transactions should follow agreed payment terms/conditions & timescales
Warranties & guarantees	assembling packages of warranties & guarantees to meet the Code of Practice is difficult for SMEs - though decisions to (a) drop requirement to have surety bonds and (b) remove need to hold warranties for duration of a GD Plan were welcomed by contributors
IT software	SMEs will have to invest in software that could be very expensive to develop - standard software developed by third parties (perhaps on 'pay per click' or similar basis) is answer
IT interfaces	Green Deal Finance Company, Gemserv and others ought to harmonise portals & gateways to recognise specific needs of SME users
Applying to be a Provider	procedures are not onerous/expensive to ensure SMEs without a large administrative capability do not suffer delays or face unnecessary/unreasonable requests to clarify applications - or supply extra information
Consumer Credit Licence	clear guidance, standard forms & easy-to-follow procedures when applying for licences to reduce the risk of inadvertently breaking the law or licence conditions
Handling customer complaints	ensure the criteria Gemserv or DECC use to judge Providers is proportionate for SME applicants - esp. if a new start-up business
Handling customer complaints	strike a balance to protect consumers without being unduly prescriptive/costly - risk is SME Providers cut corners or decline to apply
Post-approval costs	what cost of annual registration will be after first 2 years of DECC funding - subsequent arrangements are proportionate to number of GD Plans entered into by SME Providers
Post-approval inspection & enforcement	checks on SME Providers, Golden Rule calculations, etc, are proportionate - and that frequency, method & format of reporting requirements are simple & straightforward

RELATED WORK

SMEs in housebuilding and home improvement are (by their very nature) a fragmented and amorphous group. They are a 'hard to reach' sub-set of the construction industry. Their trade associations may be in a better position than they realise to establish themselves as a Green Deal Provider as a service to their subscribing members.

The move by DECC to convene an industry roundtable to consider how a SME-led Green Deal Business Model can be developed by trade associations demonstrates a commitment to SMEs. This group has met twice under the chairmanship of Nick Raynsford MP, a former Housing & Construction Minister. The aim is to shape a business model that could work for SMEs - and devise the best means of communicating the Green Deal to the home improvement trades. A diagram showing a variety of business models (inc. the possibilities for SMEs) is at **Annex A**.

The Energy Efficiency Partnership for Buildings (EEPfB) has also established a SME Builders' Group comprising several trade associations. A paper was submitted to DECC in June 2012 to highlight policy issues the Partnership sees as obstacles in relation to SME participation.

Both these initiatives are geared more towards ensuring SMEs are involved in the Green Deal - rather than be a Provider. Nevertheless, DECC is wise to pursue them. This Work Group has little left to do to fulfil the purpose for which it was established. We suggest the GDPG Steering Group pass the baton on so our efforts are incorporated into the DECC or EEPfB assignments above.

RECOMMENDATIONS

The Work Group cannot hope to tackle all issues raised. We set out the primary issues of SMEs as Provider as we see them - and make these suggestions or recommendations. Observations received about consumer credit licences, warranties, etc, belong to other GDPG Work Groups.

Availability of finance: it is mildly surprising only The Green Deal Finance Company has emerged. It is not fanciful to suppose other offers could come forward - perhaps to lend on a nation or regional basis, or one aimed specifically to lend to SME Providers.

During drafting, DECC contacted this Work Group about SME finance availability & interest rates. The Department is keen to learn more and asked which forum is the best to engage with. With the GDP Steering Group's blessing, we shall approach officials to see how & where we can assist.

Energy Company Obligation: we recommend that DECC & OFGEM design the brokerage to ensure SMEs can fully participate in ECO trading (if they wish to). We anticipate the arrival of new SME participants: ECO brokers. Probably micro-businesses themselves, such brokers can act on behalf of SME Providers, taking small lots to bundle up and trade just like any other commodity.

Home Energy Conservation Act 1995: social enterprises raised this un-prompted. They hold local authority contracts and await promised guidance. We urge DECC to make an announcement.

IT systems: we recommend that parties involved with finance flows, licences, approvals, etc, use existing systems (wherever possible). If new software is introduced, we urge developers to make it easy for SMEs to use to connect to the Green Deal IT architecture.

Marketing: DECC has published a lot of commissioned research on (for instance) understanding the potential consumer response; the findings of consumer demand surveys; and how to explain the Green Deal to customers. All this is freely available from the DECC website. There are also mock-up's of what sales & marketing literature and consumer credit statements could look like.

Individual SMEs are unlikely to be aware of the potential size or scope of various market segments. Even those who do have some insight may be limited in reaching them - e.g. small marketing budgets. Trade associations have a role to play in communicating the Green Deal Framework to members. We suggest trade associations break down this publicly-funded material into digestible blocks so their members can exploit the findings for commercial gain.

CONCLUSIONS

Many voices said they - or SMEs they represent - are unlikely to be a Green Deal Provider from day 1 (if at all). This is not surprising given that we live in recessionary times. It is very difficult for SMEs to know if they ought to take the plunge and be a Provider. Only time will tell if waiting for the Green Deal to become an established business proposition is the correct choice for SMEs.

Others said being a Provider may not be as scary as it looks. SMEs are coming forward as a front-end, one-stop, project managers. They will do the marketing, win customers, obtain finance, handle risk, collect repayments and deal with regulation. In turn, they offer contracts to local firms to carry out work. Intriguingly, such SMEs tend to come from outside home improvement - and often have a finance or IT background. Community Interest Companies are also being formed.

The Work Group believes a fundamental change in thinking by SMEs and their representatives is required. Supply chain businesses must evolve from just selling products, or their labour, to offer a service or package, to become more versatile and diversify downstream. For some, this means further investment in staff to train them as qualified assessors and develop 'soft skills' needed in dealing with householders. For others, a shift towards debt financing is the way forward.

We do not make light of the fact that being a Green Deal Provider will not be for most SMEs. No-one can predict how successful it will be. We just do not know how people will act with an EPC assessment & occupancy/behavioural report, and priced Green Deal Plan, in front of them.

The views expressed in this report do not necessarily reflect the views of the businesses who served on this Work Group: