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FINANCIAL INCLUSION COMMISSION

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TUESDAY 13 JANUARY 2015

MR MARK BAYLEY and MS TERESA PERCHARD

Oral Evidence

Taken before the Financial Inclusion Commission

on Tuesday 13 January 2015

Members present

Sir Sherard Cowper-Coles
Professor Sharon Collard
Mr Martin Coppack
Dr Omar Khan
Lord Archy Kirkwood
Dame Mary Marsh
Mr Chris Pond
Ms Sian Williams

Witnesses: **Mr Mark Bayley**, The Green Deal Finance Company; and **Ms Teresa Perchard**, The Fuel Poverty Advisory Group.

Chairman: Thank you both very much for coming. The Commission is not my idea; it is Chris Pond's idea on my right, but I think you know the purpose of it is to take stock of the state of financial inclusion in the United Kingdom in the run-up to the next Election and bring out probably in early March a very short, well-drafted, well-targeted set of suggestions for the incoming Government of whichever party, and our objective is to get financial inclusion back on the political agenda and really get financial inclusion mentioned in each of the three major Parties' manifestoes. We have got many members of the Commission here and I will get them to introduce themselves. Then I am going to ask each of you to make a short opening statement and then we will have questions and we have got about an hour.

I am Sheridan Cowper-Coles. I work for HSBC leading our work on financial inclusion across the Group and I am the Chair of the Financial Inclusion Committee.

Mr Pond: Chris Pond, Vice Chair of the Commission. I have a day job with Kraeb Gavin Anderson, which is an international communications agency, and I also chair the Money Charity and the Standards Board on Equity Release.

Lord Kirkwood: I am Archy Kirkwood and I am a Liberal Democrat Member of the House of Lords and I have had a long-term interest in social exclusion matters generally.

Dr Khan: I am Omar Khan. I am the Director of the Runnymede Trust. We are a think-tank which focuses on race and ethnicity. I have worked on financial inclusion since around 2006.

Dame Mary Marsh: Mary Marsh. I am in the charity sector currently, with a background in education. I also have non-exec roles including at the moment on the subsidiary board of HSBC in Europe.

Professor Collard: I am Sharon Collard and I am based at the Open University Business School in the Centre for the Public Understanding of Finance

Mr Coppack: I am Martin Coppack, an independent Commissioner for this but my day job is at the Financial Conduct Authority. I am also with Teresa as a Commissioner on the Scope Commission on extra costs for disabled people.

Q. Chairman: Which of you would like to go first?

Mr Bayley: My name is Mark Bayley. I am Chief Executive of The Green Deal Finance Company. First of all, I would like to thank the Commission very much for the opportunity to attend and talk in this session. I will spend a couple of minutes summarising what the Green Deal is and why it is one of the most inclusive consumer finance products that is available today. By way of background, the Green Deal is a major Government initiative to achieve a reduction in the UK's carbon emissions through the installation of energy efficiency measures in people's homes as well as in offices and other buildings. Green Deal Finance is a key component of the Green Deal and is enshrined for its mechanisms in the Energy Act. In essence, it is financing very similar to a loan under which householders can borrow money to pay for the cost of installing energy-saving measures in their homes and then repay the borrowings as part of their electricity bills. To give you an idea, a typical Green Deal plan that we see involves the borrowing of about £3,500 repaid over a term of 20 to 25 years at an all-in borrowing cost to the householder of about 8% APR, which is a fixed rate over the term of the plan. At the moment, for an idea of where we are, we have about 8,600 plans on our books at the moment worth £30 million, 4,000 plans currently in repayment, 2,000 plans will start repayment very shortly as soon as the related energy-saving measures are installed in the homes and 2,000 finance plans are currently being processed.

The main measures that these plans cover are the insulation of walls and lofts, new energy-efficient condensing boilers and solar panels. There are four features about the Green Deal that are central as to why it is inclusive. The first feature is that repayment should not be more than the expected energy savings over the life of the loan. This is a so-called golden rule and golden rule savings are assessed by impartial Green Deal assessors based on pretty conservative aiming off principles. That said, the golden rule is not a guarantee about the energy saving since the number of people living at a particular property and their lifestyles may very well change over the 20 to 25 year term of a loan. It is reasonable expectations of what the energy savings will be. What that means is that our loans should be intrinsically affordable to our borrowers since what they save should cover the cost of repayments under the Green Deal finance plans and our lending criteria reflect that fundamental principle about Green Deal finance.

The second feature is that Green Deal plan repayments rank equally with the payments of a householder's electricity bills and this means that the default margin that we charge in our loans can rely on the very strong propensity of householders to pay their electricity bills to keep their lights on. The default experience of the electricity supply industry is between 3% and 4% of billings, which is far lower than the normal consumer credit margin, and here is a chart which you have in the briefing I provided to the Commission beforehand, which shows that after a period of a year the long-term default rate is just under 4% and it can be a bit closer to 3%. It is generally concentrated in people moving home without leaving a forwarding address for their bills.

Those two factors mean that we can lend for a very long term, up to 25 years, thus maximising the amount you can borrow off the savings generated by the energy efficiency measures that they wish to install. The other point is it allows us not to discriminate on the basis of a credit score. Everybody is offered the same rate including people on pre-payment meters and in rented accommodation, provided of course that they satisfy our credit criteria and also the affordability criteria that must go with selling any kind of loan product.

The third feature of Green Deal finance is we are a not-for-profit company so that any surplus profit is ploughed back into reducing the cost of our finance rather than being used to pay dividends to shareholders.

The final key feature about Green Deal finance that is behind our ability to have a very wide spectrum of people that we can lend to is that our loans remain attached to a property's electricity meter. If the bill payer moves house the loan stays behind attached to the meter. In fact, we take the risk that nobody comes to pick up the payments on that meter. It is literally a loan that people can walk out of. I might add also that we do not make any charge for early repayment of a Green Deal plan as well.

All those factors together mean that we can set our credit threshold as low as 620 on the Experion score which is the point at which general consumer credit default begins to spike up. This chart is on page 14 of your briefing. As you come down from prime credits here through the adult population you find the default rate is very low until about

600 when it spikes up considerably. We have taken our credit threshold right down to 620. To lend below that is moving into the territory of irresponsible lending. The effect of setting our credit threshold at that level means we can lend to just over 80% of the adult population and in fact 90% of borrowers who are not in default under any other financial obligation. That is of course very significant for the objective of inclusivity. If you look at the chart which is on page 23, about a quarter of applications for Green Deal finance fall within a credit score of 800 to 600 and those credit scores would not normally have access to consumer credit or, if they did, it would be very expensive. About half our applications are in the 800 to prime bracket where many of those will be paying significantly more than the average cost of borrowing for consumer credit and very much above what we would offer on our one-size-fits-all rate. That is 8% APR for a loan of £3,500.

Finally, I would just say that our role in the Green Deal is to set up and finance and administer the Green Deal plans on behalf of so-called Green Deal providers, largely small to medium-sized enterprises who actually sell them to their customers and we are now able to successfully run the scheme to set up plans and to administer them, but it is still early days. We have only been truly operational for a period of about 18 months. As you would have expected, we have accumulated a large number of insights and understanding of what makes this particular product work and where it does not work, and what we would like to do next is to apply that understanding and insight into developing the Green Deal so that rather than being universally available, as I have explained in my opening remarks, it can be universally taken up. Our objective is by

2023 to have one million Green Deal plans out there with a programme amounting to about £3.5 billion. Thank you very much for your attention and I am very happy of course to answer questions.

Q. Chairman: Thank you very much, Mark. Could I ask Teresa to go now and then we will come to questions?

Ms Perchard: My name is Teresa Perchard and I am here in my capacity as Vice Chair of the Fuel Poverty Advisory Group, which is an advisory non-departmental public body which is a very grand way of describing a group of individuals who act as a challenge group for Government policy, with no budget to speak of and no secretariat, and although we have a statutory life, we are essentially a group of representatives of different organisations who work with officials in the Department for the Environment and Climate Change (DECC) as they develop and implement their policy on fuel poverty. Our formal task is to advise on the effectiveness of policies aimed at reducing fuel poverty in England. I would like to underline our role is to focus on England because fuel poverty is a devolved matter, and there are different policies on fuel poverty across Great Britain. We also encourage greater co-operation and co-ordination between different organisations that are charged with or who have decided to do something about fuel poverty. Our membership comprises representatives from energy suppliers, energy retailers, the National Grid, energy efficiency organisations, health charities, poverty charities, advice agencies and, with the exception the Chair and the Vice Chair, all the other members are nominated by their organisations.

Our group is being changed shortly as part of a new Government strategy... We will be wound up in the next couple of months and replaced with a smaller, skills-based rather than representative-based group, so probably moving from about 18 to around five people recruited on the basis of their knowledge and skills rather than nominated by particular energy suppliers, for example.

I would like to say something about what the problem of fuel poverty is. I know your brief said 'please do not talk about the problem of financial inclusion', but where I am coming from is the fuel poverty problem and what is being done about it, Where the axis is between that and financial inclusion is what I think you are particularly interested in, especially in the area of premiums and extra costs incurred by people to use particular payment methods. I know you want to focus on that, but I would like to first talk through briefly the problem of fuel poverty and how it is being addressed...

Fuel poverty is a problem caused by a combination of three factors: low income, higher than typical energy costs or a higher than normal requirement for energy; and energy inefficiency of the property that the household lives in. Those three elements create the problem of fuel poverty. Energy prices are a major influence but so is the inefficiency of people's properties, which is where the Green Deal finance solution comes in. It is only one of the solutions being deployed towards tackling fuel poverty, but there is a range of different tools being used to reach different people. For example, people in fuel poverty in England, after tax and housing costs, are living on less than half the average income but they have 20% higher energy costs or needs. With an average fuel bill estimated at

£1,326 this year by Ofgem, a household living on an income of something like £10,000 a year is going to find it very difficult to afford to keep warm. The problem then causes quite widespread health problems, respiratory illnesses, more frequent visits to GPs both by children and older people and at its most severe some people can die as a result of the cold and being unable to keep sufficiently warm.

In terms of the scale of the problem it depends which indicator you use. A bit like the problem with financial exclusion, it is quite a small number in the population as a whole, so that makes finding those people more and more difficult because they are quite distributed. So for England on the current indicator used by the Government, which is to look at the axis of low income/higher costs, it is estimated that there are 2.28 million households in fuel poverty in 2012. These figures are unfortunately always backwards looking -t takes about two years for the numbers to appear. The most recent forecasts from DECC are that that number will increase slightly in the coming year, even though there is about half a billion pounds a year being invested in energy efficiency programmes across GB through the ECO programme. That half a billion is the proportion of ECO aimed particularly at low income households. It seems that over the last decade as fast as money has been invested in energy efficiency the figures on fuel poverty either get worse or stay the same. It is a very Canute-ish type of problem. The impact of investment can be overridden by very significant increases in energy prices, the flat and falling nature of people's incomes, particularly during a recession, and the time it takes and the cost of energy efficiency measures which will provide a lasting solution. So a typical cost of Green Deal improvements is £3,500. For some households it might cost three or four times that much to improve the thermal efficiency of the property, so it could be quite a significant investment.

There are quite a lot of numbers in the DECC data set and the Ofgem data giving insight into the key characteristics of fuel poor households in England. For example, it affects a range of family types. The largest group is families. 45% of fuel poor households in England are families but a significant proportion are couples and single adults. Many are actually in work. 45% of people in fuel poverty are in work or they are older or disabled people who are inactive or retired. That is the second largest group. They would have higher energy costs because they are at home a lot, living in all types of property but more likely to be larger properties, larger homes, semi-detached, detached rather than flats and more often in private tenure than in the social sector. That is where there may be a bit of a difference between the financial exclusion agenda where typically in the past financial inclusion initiatives have been aimed very firmly at the social sector, and social landlords, for example working with social landlords to promote banking to tenants. For fuel poverty solutions you are talking much more about getting hold of the private rented sector, negligent landlords or asset-rich cash-poor homeowners, possibly older and disabled homeowners. So I hope that helps as some sort of picture of that. The predominant thing is very poor energy in-efficient properties. Then there is the group who are off gas, and that is not just in rural areas. There is quite a lot of off gas in urban areas where people live in accommodation which for safety reasons does not have a gas supply. They may be very dependent on the shared possibly oil-based central heating system run by their landlord, perhaps a council, who may not care very much about how much it costs because they will get it back in the rent. I hope that has given you an introduction to the problem of fuel poverty.

The work of the Fuel Poverty Advisory Group is very focused on looking at whether the Government has the right strategy in place for doing something about this problem so it gets better. Over the last year there has been a major review of the way of measuring fuel poverty, new legislation creating a new target in relation to fuel poverty in England which is focused very much on significantly improving the energy efficiency of properties by 2030, so it is a very tangible, measurable target. The group tends to focus on questions around whether the investment being made by government is sufficient to achieve that target, whether it is funded in the right way, whether the taxpayer should be funding more of the work or not and what progress is being made. I will end there because I assume you might want to ask about the issue of pre-payment meters and we can deal with that in a Q&A.

Q. Chairman: Thank you very much, Teresa. As a matter of form we are asking all witnesses just to confirm, and I infer from your evidence this would be the case, that you support the idea which underpins the Commission which is that there is more to do in the UK on financial inclusion and it should be an objective of Government to promote inclusion. Do you agree with that, Teresa?

Ms Perchard: I do not disagree with it. I think the financial inclusion concept needs framing in a new way. Certainly I was a member of the Financial Inclusion Task Force created by the former Government that wound up in 2010. The agenda for that changed.

It began to look at issues around insurance and less at banking products being available and more at effective engagement take up and use. I think government has a strong interest in greater inclusion, by which I mean more effective, confident consumers choosing and using financial products and getting the best deal, whether that is banking products or insurance products, where there is a lot that could be done in that area. But businesses also have a big interest. So I do not think it is entirely down to the Government to act - businesses who are selling goods and services as well as financial services providers all have an interest.

Chairman: Which of my fellow Commissioners would like to start the questioning?

Q. Mr Pond: Thank you very much for two really useful presentations. There is one overarching question for both of you given that you both have different interactions with energy utilities and then a specific one about the business model and funding approach for Green Deal Finance. The first overarching one is the extent to which the utilities in the energy sector are actually contributing to or alleviating the problem of financial exclusion. Is there something about the way that they are operating which actually makes it better or worse given that most of the focus of this debate is about what financial services institutions are doing and what the utilities are rolling out as well? Perhaps I will come back to the funding model in a moment.

Ms Perchard: What do you mean by financial exclusion there? Do you mean credit ratings, people's access to affordable borrowing as well as take-up and use of banking?

Q. Mr Pond: Yes. I absolutely take your point that we have got to look at both the demand side and the supply side in this, but, yes, those are the sort of things I am talking about.

Ms Perchard: Utility companies, thinking just about energy not water, although I think there are some very similar issues for water companies, in three different ways they do quite a lot to promote take-up and use of banking products and more effective debt management and budgeting. Firstly, they have a range of regulatory obligations to do certain things on payment options, on identifying customers in debt, on working with debt advice agencies, on having priority service registers, knowing their customer and doing sensible things when they know the customer is vulnerable which would not put them in a worse position and would help them improve their position. So they have to comply with a range of social obligations. They also have been funding quite a lot of debt advice charities which write off people's debts including non-energy debts. They have been funding energy education programmes particularly the Energy Best Deal programme working with the Citizens Advice Bureau for about ten years. Sometimes they have done that in lieu of paying regulatory fines for non-compliance. Sometimes they have done it voluntarily. Then sometimes they have been investing in CSR initiatives around engaging with vulnerable energy customers. There is quite a lot going on in that space. It is quite difficult to get a complete map of it and what the scale of it is and form a view about whether there has been enough of it. I spoke to a couple of people today from the CAB who said they feel there has been quite a lot of progress in that area of energy companies engaging with customers to support, educate and get involved with switching campaigns. I have experience of running energy switching education campaigns a couple of years ago which involved the industry. There has been much more of that in the last five years I think industry involvement has been partly to try and do something about the trust issue. Energy company trust levels are on average about 30%. Sometimes that is better than the banks. Sometimes that is worse than the banks. There is a big trust problem and energy companies have been working with charities a great deal either because they are required to or because they see that that will help them re-engage with their customers and rebuild the trust. I find it difficult to say there is more that they could do. It might be quite useful to get a sense of what is the best of those activities. It is surprising however that there is still quite a lot of stickiness around payment methods and take-up of direct debit. I think that is reflecting the trust and customers' nervousness about direct debit fuel payments constantly being in credit when they need money in their pockets.

Q. Mr Pond: Mark, on that particular point? I know Sian wants to come in on a second question, but is there more that the energy companies could be doing?

Mr Bayley: I will take a parochial view. They have invested around £30 million in the Green Deal Finance Company which is a major footing for our programme and they have also in addition to that invested hugely in changes to the billing systems that allow us to collect loan repayments off people's electricity meters. I think the industry including debt probably has made about a £100 million investment in the capital required to get the Green Deal up and running. I think that is a tidy sum and in terms of my own parochial area I would not really expect much more than that. Where I think the energy companies could have done more is using Green Deal finance to meet their ECO obligations because that would have liberated more ECO funding for the fuel poor and the vulnerable and the measures that people really cannot afford. Because so many energy efficiency measures under ECO are being still provided for free, it means that people who could afford to contribute to the cost through Green Deal finance or their own savings or whatever are not doing so. I think that is inequitable.

Ms Perchard: Can I add on the question of whether the energy companies are making financial exclusion worse, it is very interesting that the proportion of energy accounts in arrears has not really increased very significantly alongside the significant increases in household bills. It is now around 6% which is about 1% higher than it was at the end of 2012. The average debt amount or value of the average debt has not increased either. It is roughly the same. That is very interesting. Consumer groups have found it very difficult to deal with that because you would expect with a 70% increase in energy bills over a few years that would also feed through into higher numbers of arrears and higher value of debt which would tend to increase financial exclusion as people get a poor debt history from that. The other thing is that more of the suppliers are now registering data with credit reference agencies. One aspect of the financial inclusion policy has been the extent to which information about you which is positive might be available and used by lenders to take a view about your credit risk. That has expanded and more of the smaller companies are doing that so the picture is probably an improving one in terms of the contribution they are making to financial inclusion on those indicators.

Q. Ms Williams: Can I ask two follow-up questions there. One is I wonder to what extent the fuel companies actually have a vested interest in not pushing for the financial service sector to improve because financial services sectors which do not provide the right payment methods for people's income flows, ie direct debits, do not meet low-income people's flows well, so people prefer to pay on a pre-payment meter, and of course it is the energy company that gets the extra income from the high cost of a pre-payment meter. Of course, they say all of that goes in administrative charges but we all know it is a higher cost per unit. So if the bank does not improve and provide a better push for payments so that people shift from pre-payment to direct debit, actually the energy company gets more money. It is not a hypothesis I have, it is just a question: are we asking energy companies to go against their own financial profit margin to help them push on to the banks? That is one thing. The second thing is coming to that point around all of those wonderful programmes that the energy companies are doing, a great deal of that is true and good and great, but where I see all of the issues is at the individual level and the consumer service side. That is where I think I want to drill in a bit because Citizens Advice give lots of examples of individuals who are not receiving any benefit from all of those kinds of big programmes. I have been doing quite a lot of work lately across the country interviewing private tenants and social housing tenants around a range of financial inclusion issues and one of the key things that comes through all the time is that their experience of their energy provider is just rubbish. It is not rubbish in terms of the energy arriving, they get their energy and the business works, but the conversations that they have, the service that is offered, the products that are offered. The worst example I have of this, and it is a recurring theme across the country, is people who move into a property with a pre-payment meter only to discover they have got to clear the debt from the previous customer before they can actually start getting their energy flowing for them. I have heard some horrible stories from people who are disabled who have had to pay a pound a day every day for two weeks to try and sort it out. These are things that should not be happening. My sense is that you are right, all of that big programme stuff is happening but it is at the front line where the individual customer not getting inclusion and exclusion is on an individual basis; it is where poverty happens on an individual basis. I wonder where that might fit into the conversation you are having --

Ms Perchard: I am wondering how I can help you because I have come along here as the Vice Chair of the Fuel Poverty Advisory Group which looks at what the Government is doing on fuel poverty and whether that is enough and that, essentially, is a question about how effectively the energy companies are serving their customers. It is a bit beyond the brief of the Fuel Poverty Advisory Group. I understand that you are going to see Ofgem and I think they are the people to talk to in detail about that and the extent to which customer service is outstanding or the shame of the Western world. I think even if it is better than most of us expect many people remember still the days of the doorstep mis-selling. They remember having large amounts of money taken out of their accounts on direct debits they could not control and they do not want to be in a position of having more of their money with anybody, including an energy supplier and also perhaps a local council, than is absolutely essential. What surprises me is that only 55% of customers use direct debit. . I do not know because I do not represent British Gas and retailers if they would like it to be higher. You would have to ask them. But I observe that with all the flogging of discounts for direct debits dual fuel contracts and discounts for paperless billing and all of that, it is still only 55% of customers using direct debit. I think that is because of the trust issue. 15% of consumers use pre-payment meters and 30% use standard credit and pay on receipt of the bill. It is those two groups which have the highest propensity to fuel poverty. But there are actually more people in number terms who are fuel poor but who pay by direct debit , so of those 2 million who are fuel poor in England about 1 million pay by direct debit and there are about half a million on standard credit and half a million on pre-payment meters (PPMs). It is not possible to go into a room with the energy industry and say sort out pre-payment meter users and you will sort out fuel poverty because it is not true. If you could shift more people who are fuel poor from standard credit and pre-payment on to direct debit you would only now at the moment save about £80 a year because that is the differential. The fuel costs are the same. £80 could make a bit of difference for some consumers, but the fuel poverty gap is about £500 a year.

Q. Ms Williams: For some families we know that is huge. Can I come back to something you said about of that million that pay by direct debit, which makes me think that on the triangle of access of fuel poverty financial exclusion is not causing fuel poverty.

Ms Perchard: It is not a driver.

Q. Ms Williams: It is the quality of the home.

Ms Perchard: It is three factors: low income, higher than average energy requirements – for example people who may be home all day, elderly and disabled consumers particularly; and poor energy efficiency. That is the triangle. It is difficult to say if financial exclusion is the reason why people use standard credit rather than direct debit It may be choice and preference, the consumer may not want to do direct debit, does not want to lose control, they have a bank account but want to pay when they get the bill. Financial exclusion is a factor at all for any of the groups of people who are fuel poor, it will be an extra help to move some people on to effective use of banking to pay their energy bills, but it will not be the big solution to fuel poverty. If you came to the Fuel Poverty Advisory Group and said, “Why are you not doing more on financial exclusion?” they would say, “I don’t know what you are on about because it is all about energy efficiency.” We give more priority to benefit take-up and improving incomes. There is £18 Billion of unclaimed means-tested benefit. Why not get more of that in people’s pockets? That would solve fuel poverty more cheaply and quickly than energy efficiency measures and not taxing people so much through their energy bills to fund the energy efficiency programmes. Consumers pay billions in carbon ‘taxes’ via their bills for energy efficiency programmes and they pay VAT on it. That is our concern. .

Q. Ms Williams: I suppose we take a broader view of financial exclusion than just access to a bank account, but that is a key point in here as well.

Ms Perchard: There is a hierarchy of solutions for the problem of fuel poverty. Financial inclusion measures can help some households who are in fuel poverty but they will not on their own make the largest or lasting impact on fuel poverty that is needed. Does that make sense? It is part of the menu. It is like the side order on a menu rather than the main course. Financial inclusion is relevant, important- but not the main driver of or solution for the majority of fuel poor households in England.

Q. Professor Collard: I think you raise an interesting point about the whole issue of direct debits and the fact they are sold as offering cheaper fuel, but actually if you are paying up and you end up in a lot credit when you would have preferred to have that money in your money that is not actually that useful.

Ms Perchard: Again it reinforces what we already know about the reasons why people choose to use other methods and the importance of understanding why people use those other methods and not trying to push them on to a particular payment method. There has been some progress on reducing the differential/premium consumers face for paying by pre-payment meter. The extra cost used to be £140 a year, it is now £80 and has been part of a continued programme of activity by Ofgem to scrutinise and to push companies to reduce the differential to an acceptable level. Going forward, the roll-out of smart meters across Great Britain by 2020 or thereabouts will mean that the metering costs will be equal for all households and all of those meters will be capable of doing all sorts of things that none of them can do today, including pre-payment and time-of-use tariffs. There is a big opportunity around smart meter roll-out in the future and also choice and more active consumer engagement with getting a better deal on energy.

Q. Mr Coppack: I think you have started to answer this question but I guess I was struggling to think in terms of this fuel poverty remit, and, if you are willing to talk from your years of experience in the consumer field, what would you like to see in our Commission's recommendations on financial inclusion?

Ms Perchard: In relation to fuel poverty?

Q. Mr Coppack: I would love to hear it from that remit; what positively do we need to do or set out, and also if you are willing to talk about your years of experience in the consumer field.

Ms Perchard: From a fuel poverty perspective I think there are some opportunities for the energy industry to work with the banking industry on creating better products, including insurance products. When I say energy industry, I include community energy organisations and social landlords as well. There are increasingly these Big Switch programmes. In London the people who took part in the Big Switch, a collective switching exercise saved on average £200 per annum from their energy bills. That is a lot of money for somebody on £10,000 a year, so how can we make those kinds of initiatives as inclusive as possible. Also, could there be other products and services 'bundled' with them, well, let's not use the word "bundling" but available as a choice, such as insurance. A lot of these boilers that people are getting through things like Green Deal Finance and other energy efficiency programmes need to be maintained, and we have lots of boilers and central heating systems that have been installed in the homes of low income households using on grants and other programmes. The equipment needs maintaining but people may not be able to afford a service contract. The cost of a repair could be a major financial shock in the future. There may be some opportunities on a collective basis across financial services and energy to try and find well priced protective products for energy customers. That was one thought I had as well as the budgeting side of it.

Q. Chairman: I think Martin had a wider question on your experience in Citizens

Advice more generally.

Ms Perchard: I do not think there is a shortage of products available on banking. I think the big piece is about engagement and consumer confidence and I think for the banking side of financial services to really convince customers in general that they are on their side. Everybody says, "My bank's all right, it's the rest them that are a shambles" and then they do not switch. They shout about them but never get divorced and switch their bank account. It is a bit of a peculiar love-hate relationship people have with banks but it is all about a new relationship really.

Q. Mr Pond: Just coming back on that. I am not expecting the Green Deal Finance Company to solve financial exclusion for us, but I do think we have an interesting model there where you are able to make finance available to people whose credit history is not the most impressive, at rates of interest which are pretty affordable, which is repaid out of savings that they are making on their energy bills. When I first heard about this I thought maybe there is a kernel of a model there that could be adapted in other sectors. This morning we had evidence from Brighthouse. Their response to the suggestion is you are buying a washing machine which costs you 1,500 quid by the time you have taken account of the insurance payments, et cetera, which you could buy for 300 quid. The fact is some of these people do not have 300 quid to buy it so they need to borrow the money somewhere, but the response is look what they make in savings at the launderette or in other ways their costs going forward are reduced. That is a parallel really to what you are doing in terms of energy efficiency and I therefore wonder if there is some model there which would allow us to think about affordable credit which is the more affordable because what you are using it for generates savings through which you can pay the costs of the credit. I do not know, Mark, whether you feel now that you have road-tested this model there is the prospect of it being used in other sectors or whether other Commissioners think there is a kernel of an idea there we could be using as well?

Mr Bayley: There was a rumour of an initiative for a Blue Deal to apply to water consumption, but I think when they saw the challenges facing the Green Deal they put the lid on it! In all seriousness, one of the aspects of it is to have a one-size-fits-all rate because the normal response to lower credit is to increase the interest rate thus defeating the whole purpose. In our case, of what we are trying to do, which is to make our product universal. So you are right, it would be fantastic to lend against savings that come from the investment being paid for out of the original loan but at the same time you need to keep the interest rate down through a socially useful objective, if you like, so that those savings can be leveraged. The more those savings apply to interest, the smaller the loan that they can support and therefore the less that can be bought to achieve the savings, so there is a second aspect to it.

Dame Mary Marsh: Presumably also in transferring your model you have got to have a situation where there is a stakeholder who has both the resources and the interest in putting in £30 million into keeping it on because then there must be various benefits to them in making that investment but that might be more difficult for us to justify?

Mr Pond: We have big investments in the credit union movement at the moment from

Government.

Q. Dame Mary Marsh: I was thinking of commercial organisations as a parallel.

Mr Bayley: You are absolutely right that behind all of this, as I said in my opening remarks, is the UK's Treaty obligations to reduce carbon. People in their homes say, "I am responsible for my own home to keep it energy efficient to save money, but carbon is the Government's remit", but because meeting carbon reduction is so expensive it is an absolute imperative to get people who can afford to pay to pay in proportion to the sayings they make from energy efficiency. There is a strong Government back-drop to this which is why £100 million of investment goes into setting up the Green Deal that you might not find in other areas.

Q. Mr Pond: I think this panel would say in terms of what we know about the costs of financial exclusion, whether it be in mental health or the Health Service more generally and in terms of people finding it difficult to enter paid employment and so on and so on. I am not going to let the idea drop just yet.

Ms Perchard: At the moment for England there is no taxpayer-funded grant scheme for energy efficiency, so any grants that are available are derived from levies on consumer bills This means it is quite a regressive way of funding grants and it is all on the electricity bill, so consumers who live in rural areas who are off gas are contributing quite a lot through their electricity bills to fund energy efficiency programmes. £1.3 billion is available for the GB ECO programme every year funded through bills. There is VAT paid on that as well. Some households will never ever see anything come to them from it, it is very regressive and some of consumers contributing to these costs are on very low incomes.

Mr Bayley: I think it is worth clarifying a settlement reached a year ago moved a substantial portion of the UK burden from the bill payer to the taxpayer and what the Government took away with one hand was restored with the other. There was a large amount of money taken out of the ECO obligations which resulted in that 50 quid reduction. Whether that has gone into the pockets of consumers is another matter, but there was an important step to reduce that £1.3 billion to a much lower level.

Ms Perchard: But it was a small proportion of the overall tax, the Warm Homes bill discount. We have argued that there are costs to the public purse on the NHS particularly from fuel poverty with extra visits to GPs and hospital stays which are very expensive. In some parts of the country very forward-thinking parts of the NHS have seen that fuel poverty is costing them money. For example, £600 a day to have somebody in hospital when they could be at home for a lot less. But getting all parts of the health economy to see that they could make savings by investing in fuel poverty is a real challenge. Is that kind of thinking you are having about where is the payoff from making the investment? It could be in some areas such as health, particularly with increased longevity and the ageing population, it could become a bigger cost to the NHS going forward, but at the moment it is only in some parts of the country people have seen the link and seen that they can reduce their budget by investing in energy efficiency and debt advice to keep ill people warm and safe at home.

Q. Lord Kirkwood: You were very clear and thank you for doing that because it is sometimes confusing, but your evidence is really English-related although maybe the Green Deal is United Kingdom wide?

Mr Bayley: It excludes Northern Ireland so it is Great Britain technically. It would have been England and Wales a few months ago but luckily it is now Great Britain.

Q. Lord Kirkwood: Is there co-ordination across the kingdom really is the question? Do you talk to your opposite numbers? Are there other things happening in other parts of country from which best practice through the Commission could be shared?

Mr Bayley: That is very interesting. Some of the energy efficiency measures can be fully financed with Green Deal Finance and that works equally well in Scotland. A large amount of the plans are in Scotland, as you will see from the briefing, as well as in England and Wales, all the way across, but what is quite interesting is that the Scottish Government has different incentive arrangements to the UK programmes like the Green Deal Home Improvements Fund and I think that the Scottish subsidy mechanisms have been more efficient and less volatile than the English ones, so there is an opportunity for understanding what works with different subsidy arrangements in order to maximise the uptake to get measures installed in homes.

Q. Lord Kirkwood: I find this very interesting and I am about to replace my boiler! Is the Green Deal means-tested in any sense at all?

Mr Bayley: No, it is not, but the point here comes back to people making rational assessments: “It is my home; I am responsible for the energy bills; I will invest a certain amount of money to save money”, but they will not go beyond that whereas the

Government has an objective to reduce carbon and would pay more to reduce the tonnes of carbon going into the atmosphere. That subsidy to achieve that carbon objective is generally speaking not means tested. Clearly when you are into the fuel poor and the vulnerable and the HHCRO scheme and community schemes and so on you have to qualify for those in a way that a large proportion of the population would not qualify, but that is not what you mean by means testing.

Q. Lord Kirkwood: That is what I was leading to. It makes no sense giving me a subsidy to put in a new boiler which I will do anyway, meanwhile the long-term poor cannot be catered for by any of these market mechanisms which you are rightly concentrating on getting right.

Mr Bayley: That is not quite how I see it because it is absolutely right that subsidy should go into making the fuel poor and the vulnerable and disadvantaged warmer with a 100% subsidy. That is absolutely right. The problem is that if you want to eliminate carbon, people will only contribute to the extent that it is economically rational for themselves to do. Few people will go beyond that. Coming back to your boiler, you will pay what you reckon is a sensible economic deal but you might not pay very much more because you get a more carbon efficient boiler, so in order to persuade you to do that the Government would need to give you some subsidy to do that. It is slightly repeating a point I made earlier: The more that people can be made to pay for energy efficiency measures in proportion to the savings they make, the more resources there are available to deal with the social problems that have been talked about in this session of the fuel poor and the vulnerable and disadvantaged and so on. There is more money available to do that if people who can afford to pay are paying in proportion to their savings.

Ms Perchard: Could I just answer the devolved issue. There are not Fuel Poverty Advisory Groups for Wales or Northern Ireland.

Q. Lord Kirkwood: I did not know that.

Ms Perchard: There are also very significant differences in pre-payment meter usage between countries that make up the UK, so in Northern Ireland 36% of all households use pre-payment meters (compared to 15% for England). The equipment used is a Key Meter. There is no additional premium or differential for it and it is an extremely popular payment method. Most people with key meters think they have got smart meters because of the functionality. In some parts of England there is a much higher proportion of pre-payment meter usage. For example Merseyside in particularly has a very high proportion of pre-payment meters, I think perhaps reflecting a legacy of debt problems in the ManWeb area and a particular strategy of that company in decades past to install pre-payment meters to resolve debt. In Merseyside, 24% of all households have pre-payment meters; in the South East it is 10% so there are quite big regional differences.

Q. Lord Kirkwood: There is somebody sitting around the table from time to time looking at all of that?

Ms Perchard: The figures?

Q. Lord Kirkwood: To learn the lessons in order to rationalise what is happening so that best practice can be shared in a way?

Ms Perchard: There are no institutional arrangements for co-ordination of fuel poverty policy between the different nations within the UK.

Q. Lord Kirkwood: Should we not do that? Would that not be sensible?

Ms Perchard: I think it is a good idea. Most of the time what happens is the English say why can we not have a Government-funded grant scheme for energy efficiency like they have in Scotland and Wales! Major energy policy is reserved, and ECO is a GB scheme, but fuel poverty is devolved, and it is a bit awkward as a result to make some of these things fit together well. The Smith Commission recommended further devolution to Scotland.

Q. Mr Pond: A very quick technical question whether or not Green Deal finance is available for those with pre-payment meters?

Mr Bayley: Yes, it is but clearly subject to credit and affordability criteria being met.

Ms Perchard: Also switching so you can now switch if you have a pre-payment meter if you have up to £500 of debt so you are more likely to be debt blocked on switching if you pay with standard credit. We did not provide a briefing because we only found out about this a couple of days ago, but if you would like some of those numbers, perhaps you could let me know what would be useful to you and it may be particularly stuff around pre-payment meters.

Q. Lord Kirkwood: Have you any idea why the numbers have not gone up? The prices have gone up but the debt does not seem to have reflected that. Have you got any idea why that is happening?

Ms Perchard: For consumers who pay by variable direct debit and by pre-payment meter, in essence, the problem of needing to adjust the amount they pay is all wrapped up in that payment method. The company will simply tell you that you are now paying £100 instead of £80 a month and it is varied because it is a variable direct debit.

Q. Lord Kirkwood: Can you expand on that in a note? A paragraph on that would be useful.

Ms Perchard: There is a thought that there is no customer intervention really.

Q. Chairman: I just had a question for Mark. It may be in the briefing, which I confess I got only just before the meeting, but the demographic of people who take out Green Deal loans, is that covered in your briefing?

Mr Bayley: Yes, and it is much more wide than one would expect. There is an increased concentration of people living in ex industrial areas and a lot of people who exercised their right to buy their council homes are also overly represented. It is generally low quality housing and quite a lot of debt-averse people too, funnily enough, find the product more attractive than would be expected from their proportion of the population.

Q. Chairman: But for distribution you rely on the people who sell the products?

Mr Bayley: Yes, the people who do solar panels, insulation and boilers principally.

Q. Chairman: Presumably this is not available to tenants?

Mr Bayley: It is. One of the problems in getting the Green Deal going was that there was a conflict between the Consumer Credit Act and the Energy Act and who was the debtor. It is all very technical but it meant that we could not sell in the landlord/tenant sector until 1 March last year. We now have about 400 Green Deal plans out of the 8,600 and it is a sector that is very important because it is a win/win. The landlord can meet their obligations to improve particularly in the private rented sector but pass the cost to the extent there are savings to the tenant.

Q. Chairman: That is covered in the briefing?

Mr Bayley: Yes, but we can provide more.

Chairman: Thank you both very much indeed. That was excellent.