

## Template for costing policies of opposition parties

*Please remember that everything entered into this template, and email correspondence relating to its completion, may be published under the Freedom of Information Act*

Description of policy
<p>The policy is for 1 million interest-free loans to fund domestic energy efficiency improvements during the next Parliament.</p> <p>This relates to the following announcement by Caroline Flint: "...to typical home owners, I say: Labour will provide one million interest free loans in the next Parliament, so you too can heat your home and save on bills." <a href="http://press.labour.org.uk/post/98218687704/speech-by-caroline-flint-mp-to-labour-party-conference">http://press.labour.org.uk/post/98218687704/speech-by-caroline-flint-mp-to-labour-party-conference</a></p>
Additional policy assumptions
<ul style="list-style-type: none"><li>• Assume that one million interest free loans are provided over the next Parliament (at a rate of 200,000 a year over a five year Parliament) through the Green Deal Finance Company</li><li>• Assume that the length of loan and credit rating is the same as the average for the current group of Green Deal loans</li><li>• Assume that the value of the loan is the average for the current group of Green Deal loans, i.e. that the amount of capital borrowed is the same as the average amount of capital currently borrowed, and that this average value increases each year in line with expected inflation (modelled at 2% pa.)</li><li>• Assume that upfront and ongoing administrative charges are at current levels, are not subsidised by Government, and are paid back by consumers through their loan repayments in the way that they are at present</li><li>• Assume that loan repayments are amortized as at present</li><li>• Assume that Government fully funds the difference between the existing interest rate for Green Deal loans and offering those loans interest free, through a grant to the Green Deal Finance Company</li><li>• Assume that the loans are interest free for their lifetime.</li><li>• Assume that the Government reimburses GDFC on an annual basis for the in-year interest costs over the lifetime of the loans.</li></ul>
Additional technical modelling assumptions or judgements required
<p>We have assumed a linear profile of applications throughout each of the five years (ie constant rate) and costs are modelled on an annual basis for the lifetime of the policy. DECC do not have a model that calculates costs on a more granular basis.</p> <p>These are the figures that have been used in this costing:</p> <ul style="list-style-type: none"><li>• <b>6.96% interest rate</b> – the current GDFC interest rate.</li><li>• <b>20 year loan length</b> – the average currently observed under Green Deal.</li><li>• <b>£3,800 average value of loans</b> – the average currently observed under Green Deal.</li></ul>

- **5p/day charge on a loan** – this is modelled as a £20 annual charge which is constant throughout the lifetime of the policy and is paid back through the loan.
- **£63 upfront charge** – this is paid back separately by the consumer, ie not through the loan, as at present

If needed, information required on distributional effects of the policy

None requested

Cost/Revenue to the Exchequer over five years

	DEL				
	Start-up cost	Year 2	Year 3	Year 4	Year 5
Current					
Capital	£27m	£81m	£135m	£189m	£242m
<b>Total</b>	£27m	£81m	£135m	£189m	£242m

The average Green Deal loan period is 20 years hence this policy would involve costs beyond the next Parliament (up to the year 2039 for loans taken out in 2019). The estimated total lifetime policy cost is **£3.6bn, undiscounted**, and **£2.6bn discounted** at the standard 3.5% rate. Figures are in nominal prices.

Distributional effects (if none requested, any significant):

None

Comparison with current system (if applicable):

Government doesn't currently subsidise Green Deal loans – they are provided as a commercial product through the Green Deal Finance Company. Borrowers currently pay an interest rate of around 7% for Green Deal Finance. Therefore, irrespective of the number of loans currently taken up, the counterfactual is a zero cost.

Current demand for Green Deal loans is much lower than 200,000 p.a.; this costing does not consider the feasibility of demand reaching such a level.

Other comments (including other Departments consulted):

DECC have provided this costing using the assumptions above.

*To be completed by Permanent Secretary's Office*  
Date costing signed off:

11/12/2014

*[If applicable]*

Date revised costing signed off: