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Energy Efficiency and Low Carbon Market Research

October 2017

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Aims and Objectives

Purpose: To create a snapshot of key insights into the energy efficiency and low carbon market in Scotland (demand & supply)

1. To identify likely future demand from key buyers in Scotland
2. To identify what the current supply chain characteristics are in Scotland
3. To provide insights to assess the supply chain's likely ability to respond to the tenders to be issued as part of Scotland's Energy Efficiency Programme (SEEP)
4. To identify any significant barriers and gaps in the supply chain's ability to meet the needs of buyers that may limit the uptake of Scottish products and services
5. To provide recommendations including specific recommendations for improving procurement processes and documents for suppliers

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Methodology

1. Identification of contact lists
- Identification of potential stakeholders

2. Introductory emails
- Emails were sent from Amec Foster Wheeler, EST, Scottish Federation of Housing Associations etc

3. Follow up calls
- Calls aimed to complete surveys (or abbreviated surveys) over the phone
- Calls aimed to clarify points made on completed online surveys

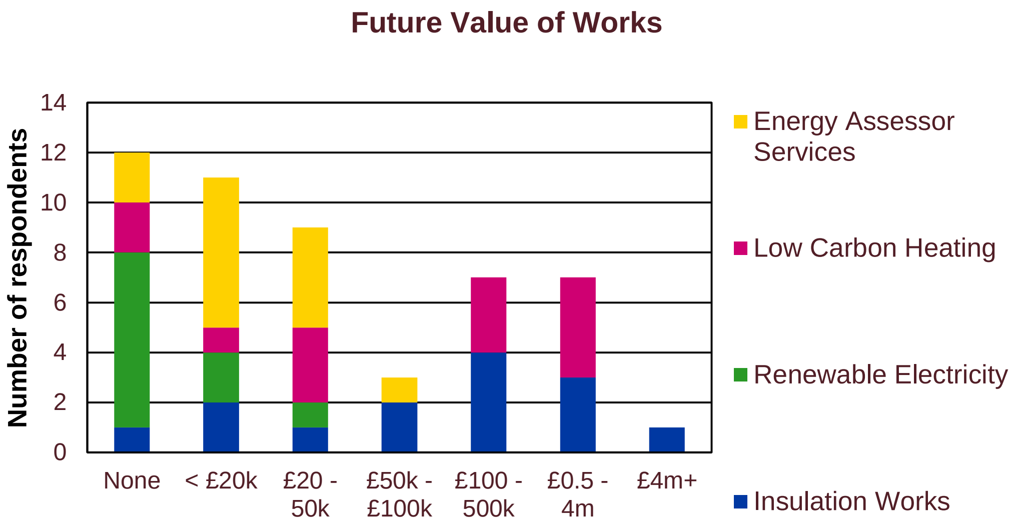
4. Analysis of results

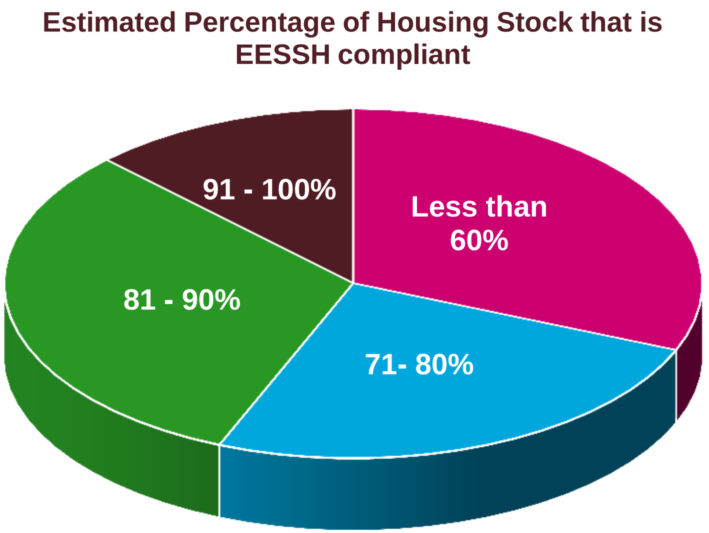
Buyers
- Housing Associations
- Local Authorities
- Other Public Sector
- Industrial / Commercial

Suppliers
- Insulation Works
- Renewable Electricity
- Low Carbon Heating
- Assessor Services

Objective 1 - Likely future demand from key buyers in Scotland

Housing Associations – Future Works (3 yrs)





Higher target spend on insulation and low carbon heating

Average spend on all measures per Association ca. £864k

31% consider existing stock to be < 60% EESSH compliant

This translates as approx. 17% of total stock held by respondents

..though 93% have a proactive strategy in place

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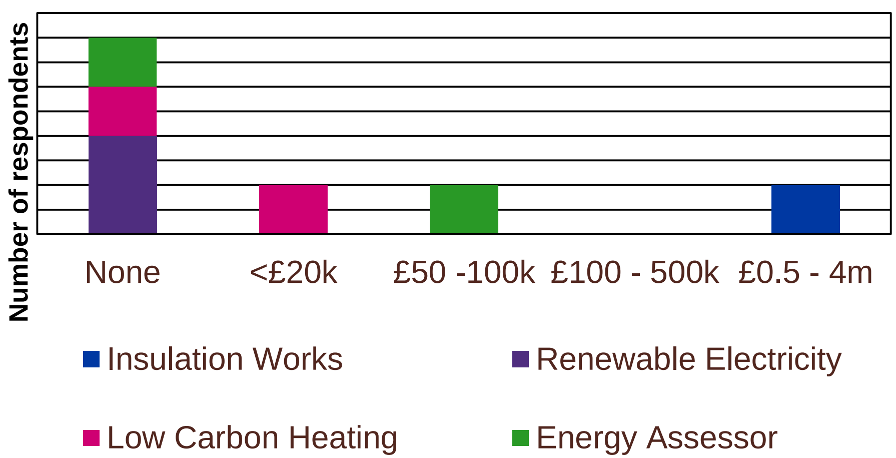
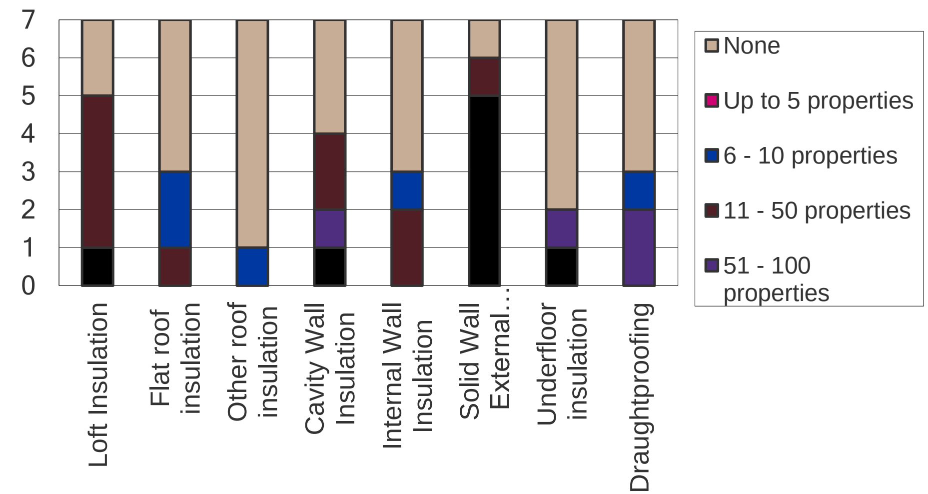
Local Authorities – Future Market (3 yrs)

Future Purchases (3 yrs)



What are the main insulation measures you would expect to undertake in the next 1 - 3 years?



Cautious position – large none!

Expenditure in CCR for 2015/16 much higher than figures here

Average from survey would be £850k per Authority in next three years

HEEPS: A BS

Scottish Government funding likely to sustain demand in all areas

Example here for insulation works

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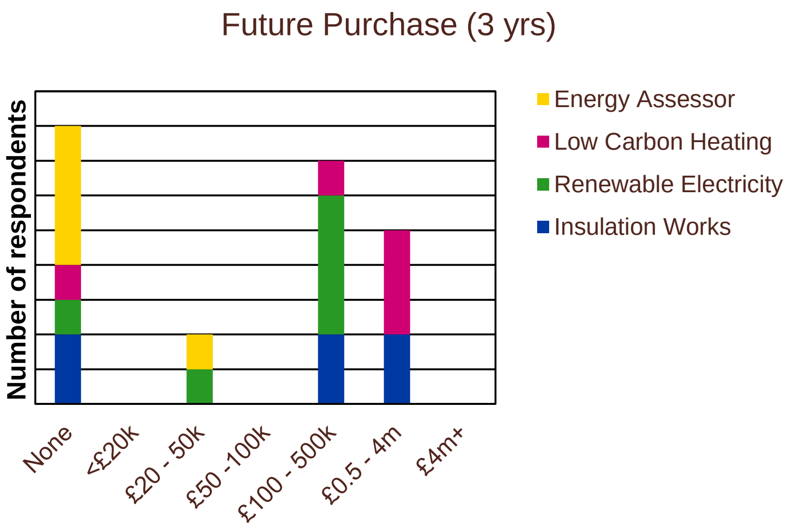
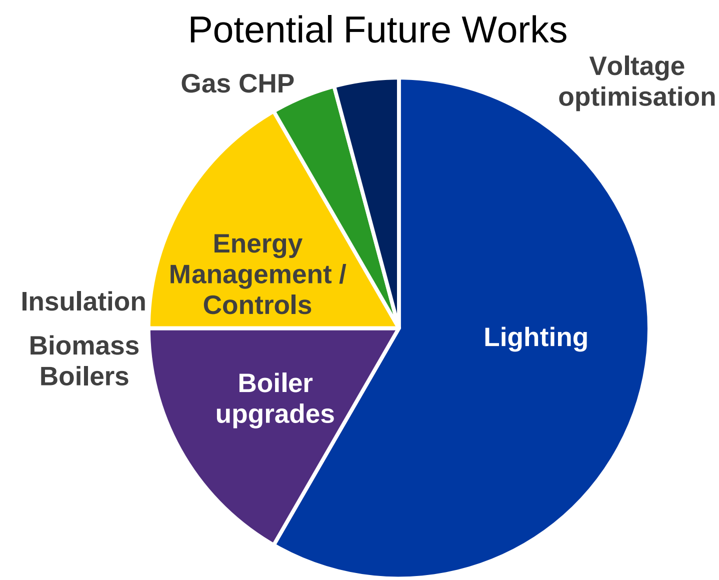
Universities / Colleges / NHS – Future Market





Future spending across all areas;

Lower expenditure on Energy Assessor Services

Average £550k per institution

Neither Colleges nor NHS able to use Salix funding

NHSScotland also spending considerable funds on lighting and boiler upgrades

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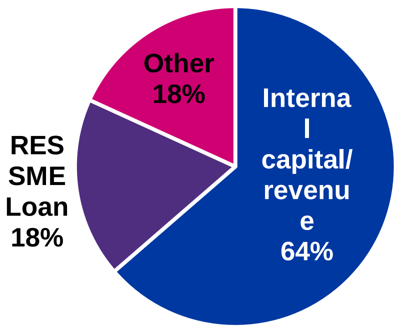
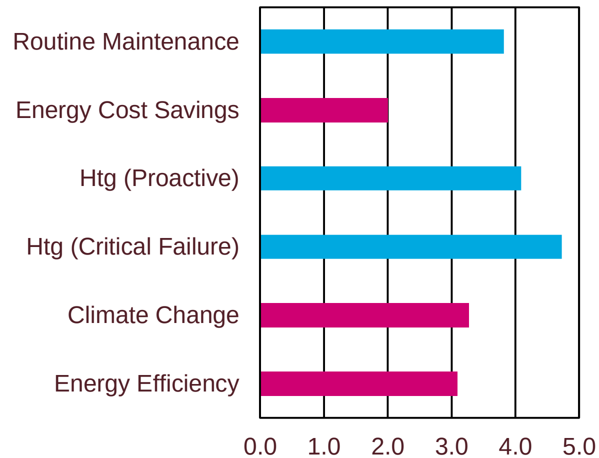
Industrial / Commercial Buyers

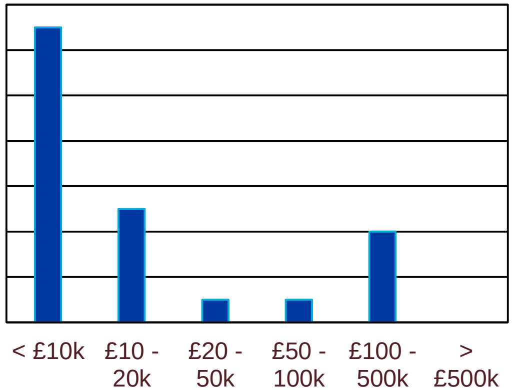
Sources of funding for works



Ranked Importance
(1 highest)

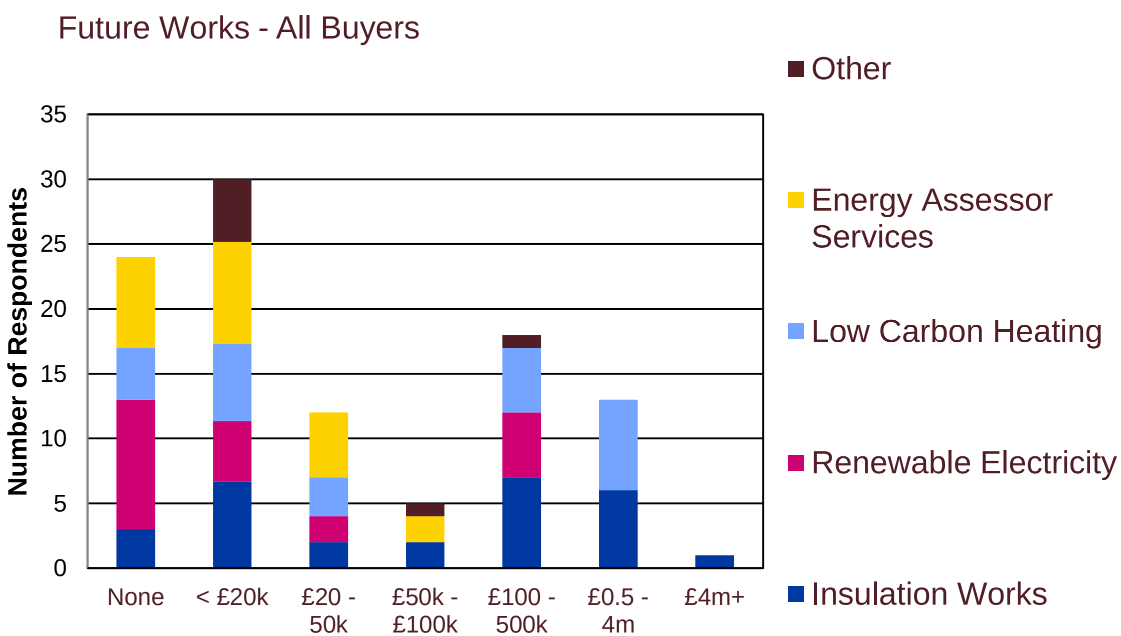


Future Works (3 yrs)



Industrial/commercial buyers continue to seek energy efficiency cost savings via low carbon works. Projected modal expenditure is modest (less than £10k per organisation)

Future demand from buyers



Future demand in all areas – strongest demand in Insulation Works and Low Carbon Heating

Energy Assessor services lower demand reflects variable in-house capacity among buyers

Other refers to lighting, smart meters and HVAC (commercial / industrial survey only)

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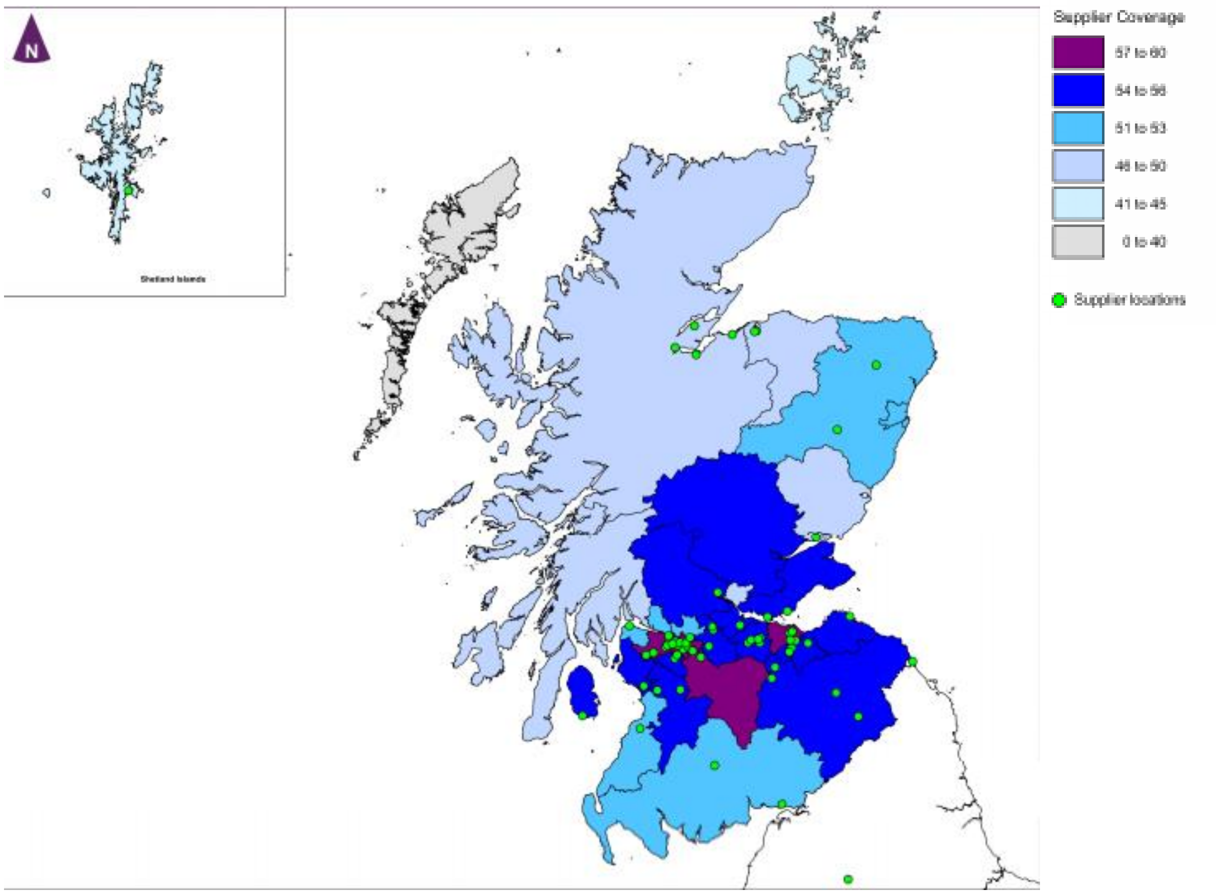
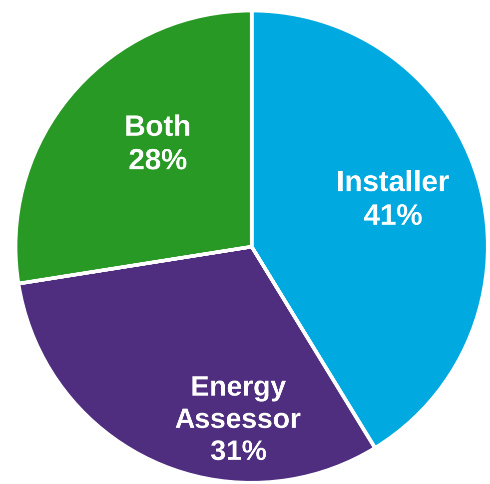
Objective 2 - Current supply chain characteristics in Scotland

Suppliers



Main service areas



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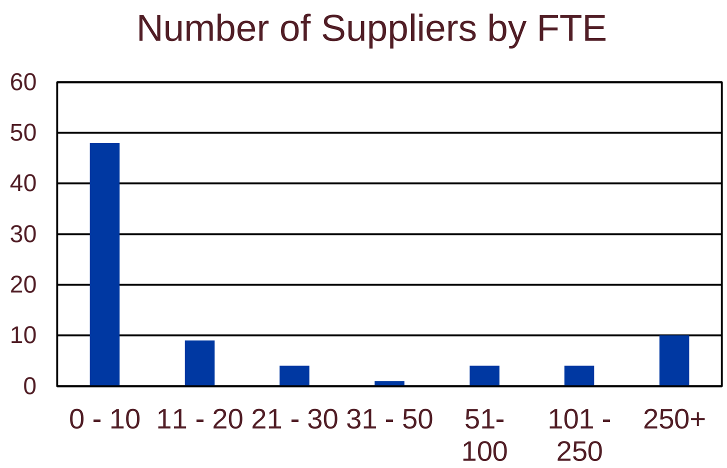
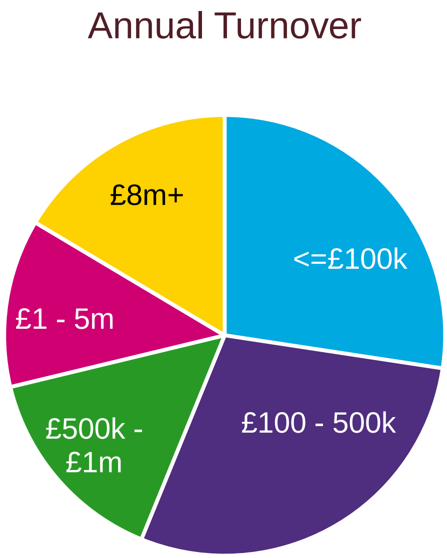
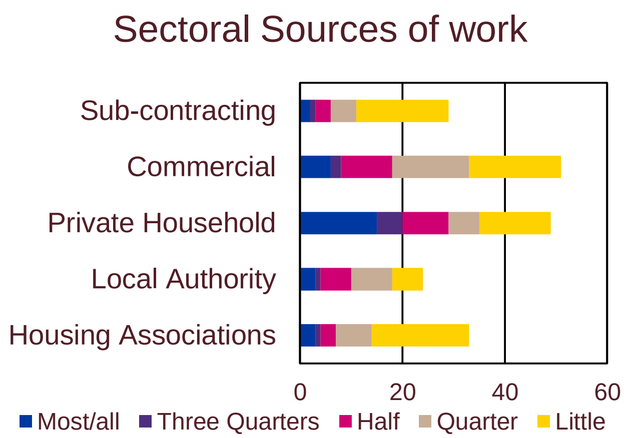
Suppliers – Size and target sectors







60% of respondents <= 10 FTE

13% of respondents => 250 FTE

65% of respondents turnover less than £1m pa

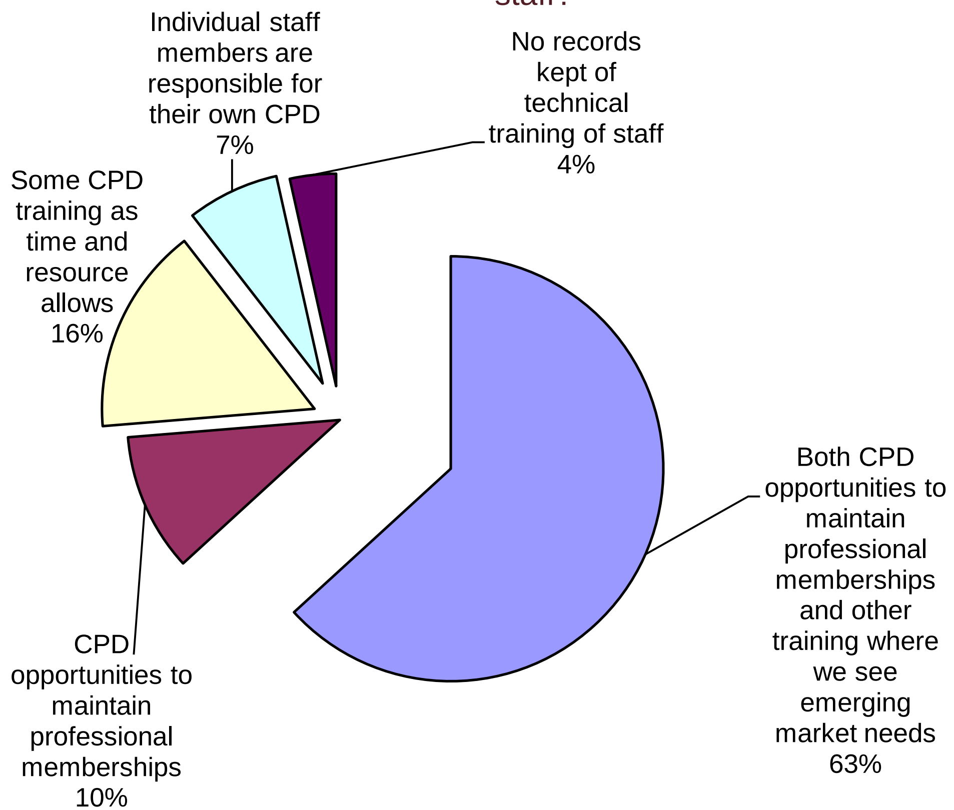
Fewer suppliers reliant on public sector clients

Potential barriers for smaller suppliers

Suppliers – Accreditation and training

Accreditation / Certification	% Respondents
Green Deal (PAS 2030)	62%
CIGA (Cavity Insulation Guarantee Agency)	24%
SWIGA (Solid Wall Insulation Guarantee Agency)	19%
MCS (Microgeneration Certification Scheme)	76%

What technical training do you routinely provide for your staff?



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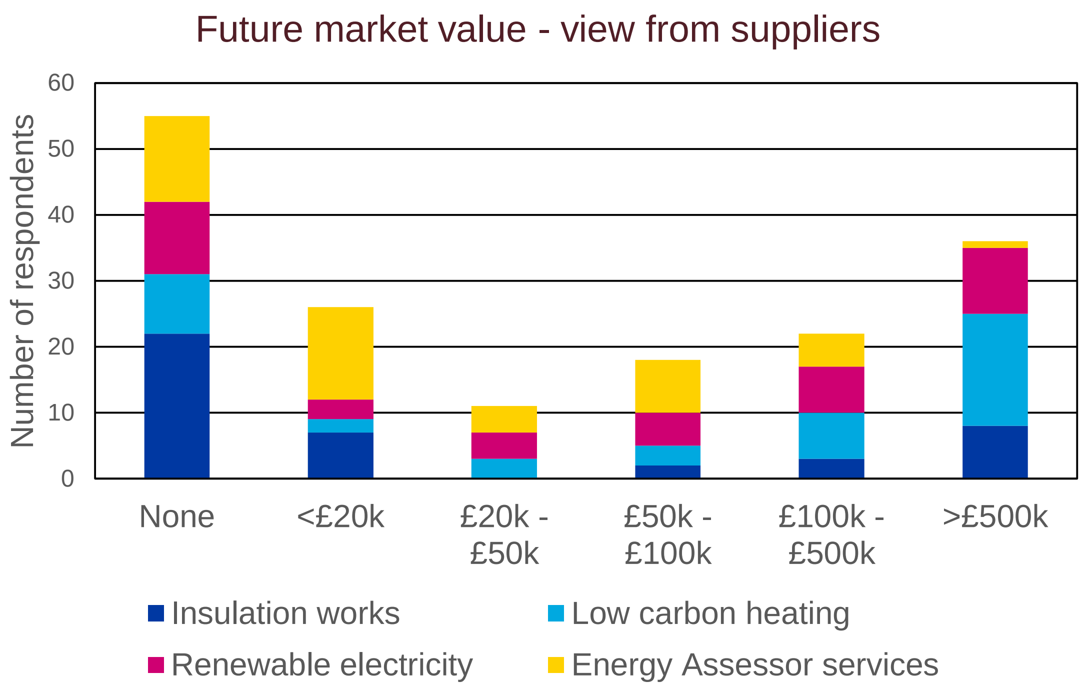
Suppliers – Future Market



Mixed views and cautious view of future

Most positive views from low carbon heating and renewable electricity

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Objective 3 - Ability to respond to SEEP and procurement insights

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Procurement Routes / Understanding buyer needs

Public Buyers

- *Predominantly via PCS*
- *At least 50% of all opportunities in past 12 months advertised via PCS*

Industrial / Commercial Buyers

- *Single or small number of preferred suppliers*

Suppliers

- 60% registered on PCS
- 55% of respondents did not respond to any opportunities advertised via procurement portals in past 12 months
- 60% use word of mouth as primary means of attracting business
- Good overlap between views of key drivers from Buyers and what Suppliers understand are drivers for works

Large potential talent pool of SMEs essentially excluded from market opportunities

Portal based procurement limits dialogue

Suppliers typically have good understanding of the drivers behind Buyer requirements

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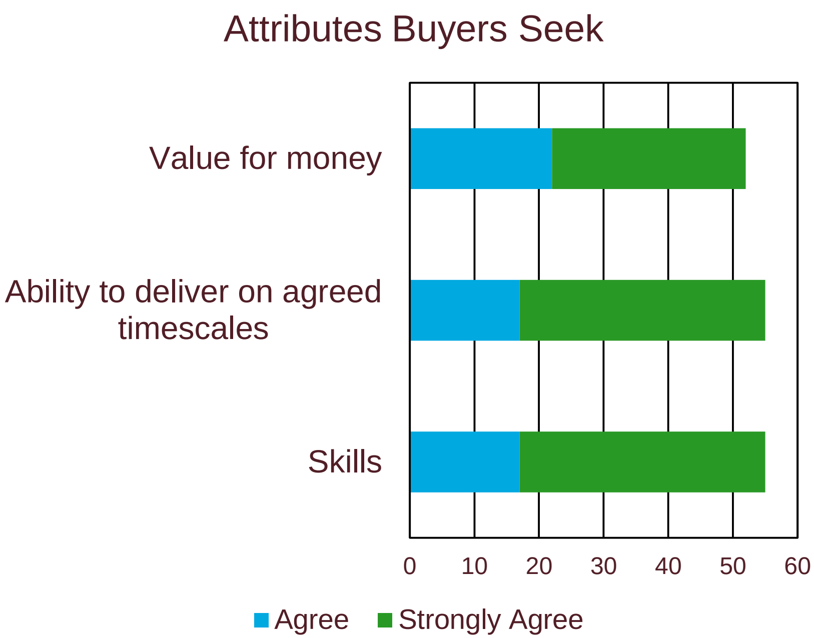
Skills, Attributes, Mandatory requirements



Top three responses tie in with Buyer survey views

Suppliers

Buyers of our services ask for quality standards and professional insurance levels that are difficult to maintain

40% Disagree; 28% Neither agree nor disagree

90% hold at least one accreditation (MCS, PAS2030 etc.)

Suppliers do not consider that mandatory requirements are too onerous

Majority of suppliers hold at least one accreditation – so this is clearly seen as a benefit in engaging with buyers

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Objective 4 - capacity of supply chain to meet buyer requirements

Future Market Requirements

	Buyers	Suppliers
Insulation Works	Solid Wall Insulation Loft Insulation Draughtproofing	25% of suppliers offer solid wall insulation 36% of suppliers offer loft insulation 31% of suppliers offer draughtproofing
Low Carbon Heating	Boiler upgrades District heating development	38% of suppliers off boiler upgrades 16% of suppliers offer district heating hydraulic services 20% of suppliers offer district heating control systems
Renewable Electricity	Solar PV	71% of suppliers offer Solar PV services
Assessor Services	EPC – Existing dwellings EPC – new build	59% of assessor services suppliers offer domestic EPC services 43% of assessor services suppliers offer non-domestic EPC services

In terms of service offering – suppliers look capable of meeting Buyer needs

Note that typical size of supplier from present survey is less than 10 FTE – no view on capacity

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Service Alignment

	Housing Associations	Housing Association Suppliers	Local Authorities	Local Authorities Suppliers
Insulation Works	Loft Insulation Solid Wall External Insulation Cavity Wall Insulation	3 (42%) 3 (42%) 4 (57%)	Loft insulation Flat/other roof insulation Solid wall insulation	2 (20%) 2 (20%) 1 (10%)
Low Carbon Heating	Boiler upgrades Small amount of district heating and ASHP	5 (71%) 2 (29%)	Boiler upgrades	1 (10%)
Renewable Electricity	Little / none. Small amount of Solar PV	4 (57%)	Solar PV	6 (60%)
Energy Assessor Services	EPC - Existing Buildings		Limited EPC	

Not necessarily strong alignment between supplier offering and major requirements of buyers

However, buyers did not express any problem in finding suppliers to carry out works

Significant amount of suppliers use sub-contracts – so not clear who ultimate customer is

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Support Schemes Awareness

Buyers

- *Capital / revenue funding primary funding source*
- *Limited use of loans / incentives (except HAs)*

Suppliers

- *Generally good awareness of relevant schemes*
- *CT Green Business Fund less well known*
- *HEEPS equity loans and HES renewable loans too*
- *May simply reflect eligibility*

Suppliers

Scheme	Housing Associations	Local Authorities	Private Household	Commercial businesses
ECO	0/7	1/10	NA	NA
HEEPS: ABS	1/7	1/10	NA	NA
Warmer Homes Scotland	0/7	0/10	NA	NA
HEEPS: Loans and cashback	0/7	1/10	1/30	NA
HEEPS: equity loans	1/7	3/10	6/30	NA
FiT / RHI	0/7	1/10	0/30	0/18
HES Renewable loans	2/7	NA	6/30	NA
District heating loans	NA	3/10	NA	NA
RES SME Loans	NA	NA	NA	2/18
CT Green Business Fund	NA	NA	NA	6/18

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Objective 5 - Recommendations

Supply chain engagement – Future Delivery

#1 Encourage consortia working among supply chain

- Offers greater capacity to scale up service offering with lower business risk
- By extension business expansion route for SMEs
- Offers aggregation of services therefore more ‘holistic’ service offering
- Assists in transformational change rather than piecemeal action
- Offers buyers easier access to multi-service delivery

#2 Provide procurement guidance for suppliers to engage with public sector buyers

- Encourage wider sign up for PCS and show how suppliers can set up base profiles on PCS avoiding duplication of effort in responding to opportunities
- Continue support packages around how to respond to tenders

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Supply chain engagement – Future Delivery

#3 Advertising opportunities (buyers and suppliers)

- Explore use of wider social media channels to advertise opportunities and encourage more suppliers to engage with PCS

#4 Supplier services (supplier profiles)

- Use 'directory of directories' to offer recognised search route for low carbon market suppliers (e.g. dedicated SEEP page)
- Periodic networking events so buyers are aware of range of supplier offerings

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Buyer behaviour

#5 Procurement (buyers)

- Provide procurement guidance and training programme for all local authority buyers
- Encourage consistent approach to engagement

#6 Communication between buyers and suppliers (soft market testing)

- Use of Forward Plan or similar gives market signals as to potential requirements
- This enables SMEs and others to plan and tailor growth to market needs
- Better understanding of drivers and nature of work required by buyers

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Buyer behaviour

#7 Communication between buyers and suppliers (engagement events)

- Encourage more buyer and supplier engagement events
- Market intelligence for buyers/suppliers
- Builds supplier confidence that opportunities are real

#8 Supplier evaluation (buyers)

- Provide guidance for buyers on assessment of value for money
- Avoid poor use of price:quality ratios and associated lowest cost wins
- Need suitable KPIs to enable innovation in services and delivery

#9 Routes to market (consistent buyer approach)

- Encourage consistent procurement routes e.g. dedicated SEEP category in PCS
- Review frameworks regularly to enable market entry

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Access to funding

#10 Market funding (buyer access to funding)

- Provide buyers with clear routes to obtaining funding (particularly over the mid to long term)
- Leveraging investment means moving away from predominant revenue funding

#11 Market funding (central funding allocations)

- Avoid time constrained funding allocations
- Enables more holistic approach and greater innovation

#12 Market funding (buyers and suppliers)

- Provide suppliers with a clear view of the scale of funding available to buyers
- Confidence in scale of market moving forward (no Green Deal repeat)

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