

## **Energy Saving Trust Response to the BEIS Committee inquiry into the Government's approach to delivering energy efficiency improvements to buildings**

**January 2019**

### **Summary of our response:**

Our response focuses on the residential sector.

- We need a stronger engagement and advice programme and a long term roadmap of home standards, underpinned by regulation, to encourage home owners and private landlords to invest their own money in energy efficiency. Government money should then be used to help with upfront costs, and to directly finance improvements in fuel poor owner-occupier homes, social housing, and cold homes which are less cost-effective to improve.
- The government's EPC "C" 2030/2035 targets for different tenures are ambitious and welcome, but a lot depends on how "cost-effective, practical and affordable" is defined. And, new concrete, funded policies are needed to make the targets a reality.
- We highlight cuts to – and the need for new policies and investment in – householder advice around energy efficiency in England. Meeting EPC "C" is not just about additional direct financing for measures, but also helping householders to take action. We illustrate how energy advice can work with a description of the Home Energy Scotland comprehensive national energy advice service.
- MEES regulations are an important and welcome step forward, but may need to be reinforced with additional policy measures to achieve the scale of improvements we need in the private rented sector where there is the highest proportion of cold, fuel poor homes.

### **Introduction: the Energy Saving Trust**

The Energy Saving Trust (EST) is the leading, impartial sustainable energy organisation, focused on changing the way we use energy in homes, communities and transport. Our main programmes on home energy efficiency in Great Britain include:

- In Scotland, we deliver Home Energy Scotland for Scottish Government: Scotland's main support and capacity building programme for energy efficiency (see Q.4 for a summary of this programme).
- In England, we deliver multiple partnerships and project to promote energy efficiency: research, energy advice, financing programmes, targeting data, performance verification etc. for regional administrations, network operators, energy suppliers etc.
- In Wales, we play a central role in delivering (in partnership, on behalf of Welsh Government) all the main national home energy efficiency support programmes - Arbed area based scheme, Nest fuel poverty programme (working with British Gas), the Local Energy Support programme for local authorities and community groups.
- As part of our organisational mission to help everyone save energy every day, we provide expert, impartial web advice on energy efficiency reaching 1.8m people each year.

Alongside our delivery work, we seek to influence UK governments to develop a positive and effective policy framework for sustainable energy, informed by our contact with households, businesses and administrations, and from our cross-UK and international insight.

Our energy efficiency work focuses largely on homes, so our response to this inquiry focuses on homes. As energy efficiency is largely a devolved matter, we take the geographical scope of the Inquiry to be principally England. However, given the Scottish Government's extensive energy efficiency programmes, which EST plays the key role in delivering, we discuss the Scottish experience both under Q4 (which asks about the devolved experience) and to inform our answers in other sections.

### **1.1 Who should have responsibility to pay for energy efficiency?**

In so far as energy efficiency improvements are individually cost-effective<sup>1</sup> (see discussion of cost-effectiveness under question 2.1 below), where the home owner is not vulnerable to fuel poverty, the general principle should be that responsibility for financing the measures required to improve the home should fall to the building owner.

The extensively researched "market failure" of energy efficiency is that asset owners do not invest in energy efficiency even where it is cost-effective. To overcome the market failure in the homes sector, EST argues that advice, voluntary standards, minimum regulatory standards (at point of sale/rental, that are flagged years in advance) should support homeowners and private landlords to make investments towards meeting the EPC "C" target over time.

Government and government-mandated financial support for energy efficiency in English homes should then be used to:

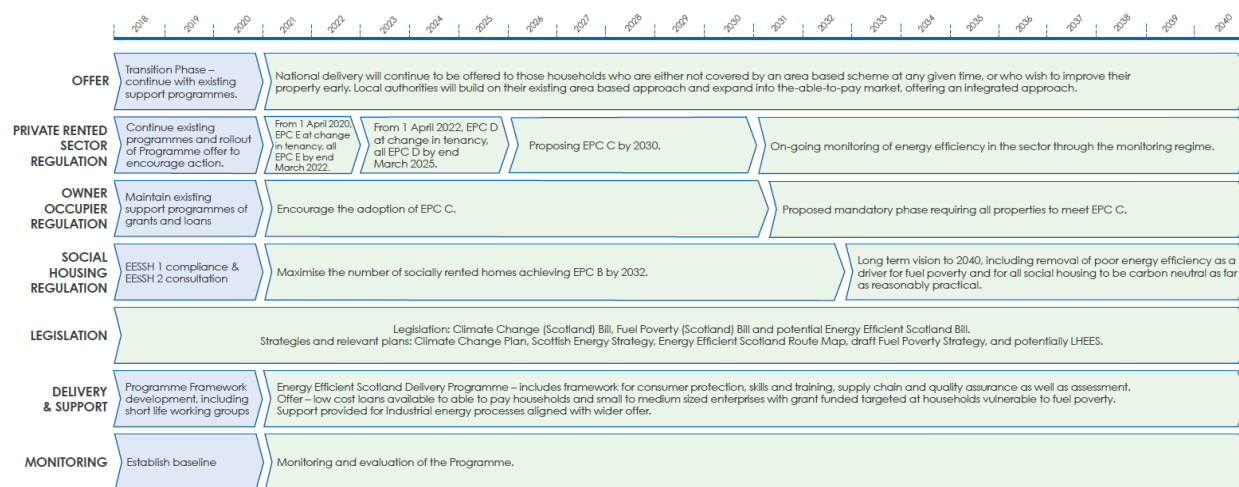
- Provide financial support to fuel poor owner-occupiers to pay for the costs of measures;
- Provide (and support the provision of private sector) low-cost financing to help homeowners and landlords pay the upfront cost of measures;
- Provide additional support for more expensive to improve homes where measures to get close to the EPC "C" standard are not cost-effective (see below), particularly where these homes are cold and occupied by vulnerable households.
- Provide additional funding for social-sector landlords to meet energy efficiency standards (there is also scope for government to work with social landlords to use existing asset management funds and rent receipts to invest in long term energy efficiency).

This is close to the approach taken in Scotland where there are zero interest loans of up to £38,500 to help homeowners and landlords pay for the upfront cost of measures and taxpayer-funded support for energy efficiency in fuel poor households. These financial measures are underpinned by, and accessed through, the Home Energy Scotland national energy advice service. To promote action

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<sup>1</sup> By individually cost-effective we mean that the payback from energy savings justifies the investment from the perspective of an individual owner occupier. Further government investment in private home energy efficiency beyond what is individually cost-effective can be justified on that basis that such investment is socially cost-effective, given the widely recognised wider benefits (eg improved health and carbon savings) of energy efficiency.

and uptake, the Scottish Government has now proposed a regulatory timetable of voluntary and then mandatory minimum regulatory standards for different tenures:



Proposed roadmap showing possible voluntary and mandatory standards for different tenures from the Scottish Government consultation, *Energy Efficient Scotland*, May 2018

### 1.1 Should energy efficiency be considered a national infrastructure priority?

Yes.

The case for energy efficiency as infrastructure has been well articulated in several reports and analyses and is now accepted by the National Infrastructure Commission: the *National Infrastructure Assessment* states, “Improving the insulation of buildings makes sense both now and in a low carbon future,” and calls for government to set an ambitious target for the rate of insulation improvements in homes and £3.8bn investment in energy efficiency in social housing.<sup>2</sup> The government’s response to these calls in their Interim Response to the Assessment<sup>3</sup> was disappointing (simply reaffirming a commitment to keep ECO funding at current levels). We remain hopeful that, in the forthcoming National Infrastructure Strategy, we will see more progress, particularly in confirming the Clean Growth Strategy EPC “C” 2030 target for social housing, with the funding to achieve that, as well as other new funding measures in line with the funding priorities outlined in our answer to the first question above.

As a separate point, we welcome the funding for Local Enterprise Partnerships (LEPs) to develop local energy strategies with a costed ‘pipeline of projects’ for their areas. There is a key opportunity for BEIS to encourage LEPs and Local Authorities to now use the new approach of Local Industrial Strategies to seek funding for and deliver on these.

## 2. Existing housing stock:

### 2.1 Are the Government's targets to improve the Energy Performance Certificate (EPC) ratings of our existing housing stock ambitious enough?

Yes, depending on how “cost-effective, practical and affordable” are defined.

<sup>2</sup> *National Infrastructure Assessment*, July 2018, P.45

<sup>3</sup> *Interim Response to the National Infrastructure Assessment Budget 2018*, HM Treasury, P.8

We support the statutory Fuel Poverty Target of achieving EPC “C”<sup>4</sup> in fuel poor homes by 2030, and we welcome government’s ambitions in the Clean Growth Strategy to achieve EPC “C” where practical, affordable and cost effective in England by 2030 in all rented homes, and in all owner occupier homes by 2035.

The EPC “C” target for fuel poverty will not eliminate fuel poverty but we believe is an achievable and ambitious target. In 2016 (latest available data), 2.7% of households living in homes banded C or above were in fuel poverty, compared to 15% of those in homes banded D/E/F/G<sup>5</sup>.

The CCC reported in January 2018<sup>6</sup> that the EPC C targets, along with other commitments on energy efficiency made in the Clean Growth Strategy are sufficient to meet the 5<sup>th</sup> carbon budget, “provided that the limitations of ‘practical’ and ‘affordable’ do not significantly limit cost-effective uptake.”

It is important to note this proviso from the CCC: much of the question about how ambitious these standards will be depends on how BEIS decides to interpret “cost-effective, affordable and practical.” A risk is that cost-effectiveness is narrowly defined (for example to measures that pay back within seven years) or affordability is restricted. Government would then just be hoping, but would have no certainty, that, between now and 2030, product innovation will bring down the cost of measures and improve their effectiveness, enabling a majority of homes to meet the “C” standard.

Research by the Scottish government shows that on current costs and energy savings, meeting EPC “C” will have a simple payback over ten years for half of all homes<sup>7</sup>.

A further consideration regarding cost-effectiveness is that many homes in lower EPC bands with fuel poor owner-occupier or private renter households are hard to improve and in poor states of repair. Research by CSE for the Committee on Climate Change in 2014 said that around 18% of fuel poor homes in England would require investment of over £10,000 to meet the EPC “C” standard of the Fuel Poverty Strategy<sup>8</sup>. There is also a significant disrepair problem in lower EPC, fuel poor homes<sup>9</sup>: getting them to C is about carrying out basic repairs as well as fitting new energy efficiency measures.

In light of these points, we suggest:

- Cost effectiveness and affordability needs to be defined at an ambitious level. This will require the availability of financial support to help home owners and landlords pay up-front costs;

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<sup>4</sup> Strictly, “C” on the Fuel Poverty Energy Efficiency Rating: the rating used for the fuel poverty target is slightly different from the EPC rating in that it takes into account financial support with energy bills the household receives.

<sup>5</sup> Analysis of data in *Fuel Poverty Statistics Detailed Tables 2016*, BEIS 2018. Table 3.

<sup>6</sup> *An Independent Assessment of the Government’s Clean Growth Strategy: From Ambition to Action*, Committee on Climate Change, 2018

<sup>7</sup> The median cost of improvements is estimated at £3500 with annual savings of £350 *Energy Efficient Scotland Consultation*, 2018

<sup>8</sup> *Meeting the proposed fuel poverty targets, Report for the Committee on Climate Change*, CSE 2014

<sup>9</sup> 11% of fuel-poor homes banded E or below are in disrepair (Decent Homes disrepair standard) compared to 3% of all homes. *English Housing Survey 2016 dataset*, MHCLG: EST analysis.

- A continuing focus on supporting product innovation in energy efficiency measures (we note BEIS activity in this area- eg new support in ECO for innovative measures);
- Clear recognition that cost-effectiveness and affordability is not the criterion to use in prioritising action on hard-to-improve, cold homes occupied by vulnerable or fuel poor households.

### **2.3 Is there sufficient support for all homes to be EPC band C by 2035?**

*No, and this is not just about direct funding for measures: provision of energy advice in England has been cut back and now needs to be adequately resourced to drive action by households.*

The two relevant statutory advisory bodies - the Committee on Climate Change and the Committee on Fuel Poverty – have both been clear that much greater funding and action is needed to meet these targets.

In the words of the CCC we need new “concrete, funded policies.” This is not just about policies to provide direct financing for measures (though we fully share other organisations’ concerns about overall levels of funding): new resourcing is also needed for advice provision.

Access to information and advice (‘what can I do?’ and ‘how do I do it?’) is repeatedly shown by research to be a key barrier for people to act on energy efficiency. Scottish, Welsh and Northern Irish governments, and other European countries, provide free energy advice from trained advisors to help householders make home energy efficiency improvements. Often, advice is the gateway to available financial support, helping ensure government financing has maximum impact.

The Energy Saving Trust was established, by government in 1992, to provide home energy advice. From 1992 to 2012 we ran a nationally co-ordinated, locally delivered energy advice service for households across Great Britain. Since 2012, that service has continued in Scotland, funded by Scottish Government. After 2012, the local delivery of energy advice in England was replaced by the “Energy Saving Advice Service”, a national call-centre through which householders could still speak to trained advisors<sup>10</sup>. Since June 2018, however, ESAS has been replaced with “Simple Energy Advice,” a website and online home energy calculator. People who struggle with websites can call a telephone service for “assistance using the site” but do not have access to trained advisors who can discuss their home and circumstances.

EST is concerned that, after 26 years, there is therefore no longer provision of universal, personalised energy efficiency advice for householders in England. Research shows that advice is particularly important for low income and vulnerable customers. Advice helps prevent misselling and misuse of government funds. And, as we increasingly complete in most UK homes the “quick win” easy energy efficiency measures, like basic loft insulation, advice is needed to help householders tackle more ambitious energy saving projects.

The key point here is trained advisors. EST strongly supports – in a digital age – the provision of home energy advice online. But energy efficiency measures can be complicated, funding

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<sup>10</sup> In Wales, ESAS was also available, alongside a separate telephone advice service provided by EST for the national NEST programme. Since the ending of ESAS, the NEST programme continues, providing some telephone advice for all households, and in-depth support for fuel-poor households.

programmes change all the time and every home is different. A digital service needs to be accompanied by trained advisors who can discuss (whether by phone, email or online chat) individual circumstances and the energy saving measures that are right for that family.

Space does not permit a full account of our view of how a cost-effective public advice service should and could be delivered. Two aspects, though, that we believe are key are:

- 1) Advice needs to be tailored and relevant for local areas. Some local authorities and charities do fund home energy advice out of their own resources. EST argues that UK government needs to introduce a new advice service which provides a set of resources to reinforce local energy advice where it is available and – in areas without local advice- provides a default, universal support service.
- 2) Supporting advice through the supply chain. Many people get their advice about energy efficiency – like any other home improvement – from their builder or installer. EST was pleased that the Each Home Counts (Bonfield) Review in 2015 argued for an information hub that would support the supply chain with an accurate and consistent set of information about energy saving and engagement tools that they could use with customers. We would like to see Government take that recommendation forward.

See also our answer to question 4 about the range of services provided in Scotland.

## **2.2 Is the Energy Company Obligation (ECO) an adequate mechanism to ensure fuel-poor homes are upgraded to EPC band C by 2030?**

*A supplier obligation is an effective way of delivering and funding some energy efficiency measures, but it shouldn't be the principal mechanism for tackling fuel poverty.*

A supplier obligation is not the most appropriate funding mechanism for a fuel poverty programme because of “regressive” impacts: there are many low income households that do not benefit from the obligation but have to contribute to its costs. Tackling fuel poverty through a supplier obligation alone (as currently) risks pushing those who do not receive improvements deeper into fuel poverty.

Nonetheless, a supplier obligation is an effective mechanism for promoting energy efficiency: over the 20 years that the UK has been running these programmes millions of measures have been installed in homes, and suppliers have generally met their targets. To minimise regressive impacts we suggest supplier obligations are best used to fund lower cost energy saving measures with a wide potential for uptake across fuel poor and non-fuel poor homes. Taxpayer or infrastructure funding should then be used to pay for improvements in fuel-poor homes, particularly where those homes require deeper refurbishment.

## **3. Private rented sector: Are the Government's private rented sector regulations for energy efficiency for both residential and commercial buildings ambitious enough? Are there implementation and enforcement challenges that need to be remedied?**

*We strongly welcome MEES, but, as it stands, it is not sufficient to drive all the action we need in the residential private rented sector.*

We strongly welcome the Minimum Energy Efficiency Standards (MEES) in the residential private rented sector. The introduction of minimum energy efficiency standards at point of rental is an important regulatory development (England is ahead of Scotland and other European countries in taking this approach). We believe that minimum regulatory standards should be used as a means of driving the

market for energy efficiency, in the context of a clear, well-publicised long-term roadmap for home energy standards (as Scotland has proposed - see our answer to question 1).

Currently, MEES is not effective as landlords do not have to contribute to costs, but the planned changes to MEES with a minimum landlords contribution of £3,500 to take effect from April 2019 will, we believe have an impact if issues with enforcement are addressed.

It is important to note how critical the success of MEES is to the achievement of the interim fuel poverty target of bringing *'as many fuel poor homes in England as it is reasonably practical to band E by 2020.'* 45% of F&G banded fuel poor homes are in the private rented sector: because ECO has to date had little impact in the PRS, MEES is the principal route by which energy efficiency improvements will be delivered (or not) to these cold homes.

BEIS modelling in the Impact Assessment for the revised MEEES regulations indicates that with full compliance a cap of £3,500 could see less than half (48%) of Band F and G homes upgraded to Band E. In order to meet the interim 2020 target - or at least meet it within one or two years of the target date - it is therefore critical that further steps are taken to support action in the private rental sector, to reinforce MEES if the cap is not going to be increased. That might be through tax relief (the landlords energy saving allowance was ended in 2015), seeking to increase the impact of ECO in the sector or additional government grant funding to support improvements in the coldest rented homes.

Local authority enforcement powers also need to be strengthened around MEES, to ensure non-compliant landlords are identified and prosecuted. We welcome the current BEIS pilots with local authorities focusing on this area, and it is important that (a) local authorities are supported to build on the resulting identified best practice; (b) further funding and regulatory changes are considered to make it easier for local authorities to use data to identify non-compliant landlords.

The need for a long-term trajectory: Looking forward, it is important that EPC "E" is only the first step. A plan is needed for a steady increase in the MEES standard from current "E" to the "C" standard by 2030. It is in the interest of landlords that the full trajectory (including how much landlords have to spend to meet "D" and "C") should be laid out as soon as possible in a roadmap. Otherwise landlords will cherry-pick the lower cost higher yielding measures initially to meet the "E" standard rather than installing a package of measures or taking a phased approach to retrofit that would be the most cost-effective way for them to meet the ultimate "C" standard.

#### **4. Lessons to learn: What lessons can be learnt from the devolved administrations on delivering energy efficiency measures?**

A key issue is levels of investment: E3G reported that in 2017 Scotland was spending four times as much per capita on energy efficiency as England, with Northern Ireland and Wales spending 3x and 2x as much respectively<sup>11</sup>.

In Scotland, as we have highlighted throughout this response, part of that extra funding goes to resource the Home Energy Scotland advice service which provides a comprehensive route to support for households on energy, whether they are struggling with high energy bills and cold homes, or are interested in the latest renewable energy technology. Home Energy Scotland provides support to

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<sup>11</sup> <https://www.e3g.org/news/media-room/home-insulation-crash-in-england>

around 90,000 households a year (note Scotland has around 1/10 of the number of households of England), including more than 33,000 low-income, potentially fuel-poor clients.

For non fuel poor households, as well as providing impartial, expert advice across a wide range of technologies, Home Energy Scotland is the gateway to zero interest loan funding. For some households seeking renewable heating or complex energy efficiency measures the programme can also fund in-home visits. However, it is for potentially fuel poor customers that the service is at its most comprehensive. For potentially fuel-poor clients Home Energy Scotland support includes:

- Providing energy advice to vulnerable households, including face to face at events and including a home visit for those households for whom advice over the phone is insufficient and where there is no local energy advice outreach service.
- Providing referrals for benefit and tax credit checks.
- Providing referrals for tariff support from the customers' own electricity/mains gas supplier.
- Providing referrals for free, impartial, advice and handholding support on switching energy supplier.
- Providing referrals to Warmer Homes Scotland (fuel poverty funding programme).
- Providing referrals to area-based fuel poverty schemes.
- Referring and signposting vulnerable households for other relevant support such as debt or money advice, fire safety checks, enabling support such as loft clearance or handyperson services, local energy advice and advocacy services, etc.
- Developing and maintain partnerships and referral pathways with trusted intermediary organisations to reach vulnerable households who are less likely to come forward.
- Providing strategic support to local authorities, housing associations and community organisations to help develop energy efficiency initiatives to alleviate fuel poverty.