

# Consultation Response

Ref 3115

## Energy and Climate Change Committee inquiry into home energy efficiency and demand reduction

October 2015

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## **Introduction**

The Energy and Climate Change Committee monitors the policy, administration and expenditure of the Department of Energy and Climate Change on behalf of the House of Commons and the electorate. It has invited written evidence for its inquiry into home energy efficiency and demand reduction.

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. We believe in a world where everyone can love later life and we work every day to achieve this. We help more than five million people every year, providing support, companionship and advice for older people who need it most.

This response address the inquiry's key questions: why have previous or current energy efficiency schemes – including the Energy Company Obligation (ECO) and the Green Deal – failed to deliver significant results, and how can they be improved. We draw on our own understanding of older people, as well as two reports we commissioned the think tank ResPublica to produce, and evidence from other countries.

## **1. Key recommendations**

- 1.1 Improving home energy efficiency will help cut carbon emissions, improve energy security and reduce consumer bills. However, it is also essential for tackling fuel poverty and reducing pressure on health services.
- 1.2 The Government's current energy efficiency targets are welcome but not ambitious enough. Faster progress and a more ambitious strategy are needed.
- 1.3 The Government should commit to extending ECO beyond 2017, reforming it to better target low income homes, treat whole houses at a time, be led by local areas and bring in infrastructure spending.
- 1.4 The Government should develop a more effective replacement scheme for the Green Deal involving smarter marketing, stronger financial incentives and use of trusted intermediaries like banks.

## **2. More than energy efficiency: cold homes and winter deaths**

- 2.1 We agree with the Energy and Climate Change Committee that energy efficiency and demand reduction is one of the most cost effective ways to cut carbon emissions, improve energy security and reduce consumer bills. However, just as important is that investing in energy efficiency is the best way to prevent older people (and others) from living in cold homes, which leads to worsening health and even death.
- 2.2 In 2013 there were 542,000 older households in England in fuel poverty.<sup>1</sup> Over 18,000 people died during winter 2013/14 as a result of cold weather, the majority of them older people. This was an improvement on the previous year, due to the relatively warm winter; most years there are closer to 27,000 deaths.<sup>2</sup> Indeed, the UK has the highest rate of excess winter deaths and the oldest housing stock in Europe.<sup>3</sup> Energy efficiency is a life and death issue.

- 2.3 Further, cold homes put pressure on the NHS. It is well understood that cold homes are dangerous to people's health, causing heart attacks, strokes and respiratory problems amongst older people. This costs the NHS at least £1.36 billion per year.<sup>4</sup>

### **3. More ambitious targets needed**

- 3.1 We welcome the introduction this year of the Government's fuel poverty target – to improve the energy efficiency of as many homes as 'reasonably practical' to Energy Performance Certificate (EPC) band C by 2030 (as well as interim targets). However, this is simply too slow. A simple estimate based on recent years' excess winter deaths figures suggests that up to 300,000 people could die due to cold winter weather between now and 2030 without effective action to improve homes.<sup>5</sup> The Government should treat this issue with more urgency. It should commit to bringing 2 million UK low income homes up to EPC band C by 2020 and all 6 million low income homes up to EPC Band C by 2025.
- 3.2 Achieving these targets requires 1) an improved ECO extended beyond March 2017, and 2) a new and improved Green Deal. We welcome the Government's statement that 'addressing fuel poverty will remain a priority of this Government'.<sup>6</sup> We will work constructively with the Government to tackle this problem.
- 3.3 Below we set out reasons why ECO and Green Deal brought only limited success, and proposals for improved schemes, drawing on evidence from other countries.

### **4. Shortcomings of ECO**

- 4.1 We argue that ECO has failed to deliver significant results for two main reasons – inadequate reach and scale, and inadequate stability.
- 4.2 **Inadequate reach and scale**  
Energy suppliers are not targeting to the degree required households most in need of improvement. Energy Bill Revolution suggests that only five per cent of measures are being installed in low income or vulnerable households.<sup>7</sup>
- 4.3 There are 6 million low income homes in the UK with an energy efficiency of D or lower.<sup>8</sup> ECO is improving homes at a slow rate, creating only a small dent in the remaining number of poorly insulated properties. Even if ECO meets its aims 'it would only equate to topping up 4% of the lofts that could benefit from further insulation, filling 16% of the empty cavity walls and tackling an insignificant 1% of solid walls that are without insulation.'<sup>9</sup>
- 4.4 **Inadequate stability**  
ECO is not stable enough to give confidence to the market of construction firms who install the measures in people's homes. Firms have complained about a lack of reliable contracts and fears over sudden withdrawal of ECO funding, leaving them out of pocket.<sup>10</sup>

## 5. Improving ECO

- 5.1 ECO is a vital tool in tackling cold homes, particularly for lower income households. We urge the Government to commit to a new programme post-March 2017. We set out below our recommendations for making the programme more effective.
- 5.2 **Target low income households, not just the fuel poor**  
Targeting only fuel poor households entails a complex and intrusive gathering of household data, slowing down and raising the administrative cost of any intervention. It is easier and more efficient to focus on low income households. Increased data-sharing between Government departments, energy suppliers and local authorities would make it easier to identify low income, and fuel poor, households.
- 5.3 **Treat the whole home**  
The majority of homes treated under ECO have had only one measure installed, leaving many below an adequate level of energy efficiency. An improved programme should retro-fit *whole homes* at a time. This minimises disruption to the home – reducing the numbers of visits to the home – which could be important for older people. The success of the Dutch *Energiesprong* ('Energy leap') rapid-action retrofit programme highlights the need to minimise disruption while work is being done.<sup>11</sup>
- 5.4 **Devolve to local areas**  
ECO would be more effective if its delivery were devolved from energy suppliers to local areas. Energy suppliers have little knowledge of local circumstances and opportunities, unlike local authorities who can work in partnership with local enterprise partnerships, health authorities and the voluntary and community sector. These bodies could administer area-based energy efficiency programmes, targeting those areas in greatest need.
- 5.5 The Government could also encourage local authorities to designate 'Warm Home Zones' in areas where low energy efficiency ratings and poor public health outcomes overlap. Local authorities could prioritise action and develop additional incentives for home owners and stricter regulation on landlords within these zones.
- 5.6 **Bring in infrastructure funding**  
ECO is funded through a levy on larger energy suppliers, which is passed on to consumers through a charge on bills. Not only is the overall level of funding insufficient to bring about the scale of change needed, but the charge on bills – including those of fuel poor consumers – is regressive. This arrangement acts as a brake on the programme's ambition.
- 5.7 An improved scheme should bring in additional funding in as fair a way as possible. The best way to do this is to bring in infrastructure spending. The Government should designate energy efficiency as a national infrastructure priority.

## 6 Green Deal shortcomings and improvements

- 6.1 The Green Deal failed to deliver a significant number of home retrofits: only 15,408 homes had Green Deal Plans in progress at the end of August 2015.<sup>12</sup> Despite this, having a scheme for people who are 'able to pay' is a vital part of the solution to inefficient homes. Below we set out some ideas for such a scheme.
- 6.2 **Improve the marketing**  
The Green Deal was not appealing to people, resulting in low demand. It was marketed as a financial proposition, and seen as boring and disruptive. This approach did not reflect the multiple factors that motivate people, such as health and comfort. Nor did it differentiate its marketing to people in different circumstances, such as different life stages. For example, people in or approaching retirement may have concerns over repaying the loan.
- 6.3 Evidence from other countries supports this. The US state of Oregon tested different messages when marketing its energy efficiency programme, finding that comfort was the most effective message.<sup>13</sup> Another US study stressed that focusing on comfort and health makes energy efficiency much more appealing.<sup>14</sup> The aesthetics of the home are also important to people.
- 6.4 The Government should market a replacement scheme using appeals to comfort, health, quality of life and aesthetics, rather than as purely a financial proposition or in terms of energy efficiency.
- 6.5 **Improve the incentives**  
The financing of Green Deal was not sufficiently clear or attractive. Age UK case studies exemplify the fact that some older people found it confusing or too costly. One couple in their 70s told us: 'We were a bit shocked at the costs, to be honest.'<sup>15</sup> The rate of interest charged on Green Deal loans (seven per cent plus charges) was too high to appeal to consumers, exceeding what many would pay on a personal loan.<sup>16</sup> The Government should reduce the rate of interest on a replacement scheme.
- 6.6 Evidence from France suggests that a 0 per cent interest rate for loans *by itself* would not drive the required scale of change. While we argue that the lower the rate of interest the more consumers will take up the scheme, this re-enforces the point about the need for smarter marketing. Further, it suggests that stronger, creative financial incentives are needed to increase demand.<sup>17</sup> The Government should explore a range of possible options, including reductions in Stamp Duty Land Tax for people who improve the efficiency of their home,<sup>18</sup> or alternatively a discount on council tax, a cash voucher or a rebate on energy bills.<sup>19</sup>
- 6.7 The Green Deal loan was governed by the 'golden rule', that regular repayments should not exceed the savings on an average energy bill. This restricted some people from making multiple improvements (i.e. too costly) and bringing their homes up to an adequate standard. The Government should consider allowing flexibility on this rule.

## 6.8 Involve intermediary lenders

Offering Green Deal loans through familiar, trusted lenders such as retail banks and finance mutuals could prompt greater take-up from consumers. Retail banks in Germany have been offering low interest energy efficiency loans for 15 years.<sup>20</sup>

6.9 Alternatively, the Government could provide funding towards a Green Investment Bank, which would itself finance other financial institutions to reduce the interest rate on the energy efficiency portion of a mortgage. Similar schemes exist in other countries such as the Netherlands.<sup>21</sup>

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<sup>1</sup> *Trends in fuel poverty England 2003–2013, Low income high costs definition*, Table 4, Department of Energy and Climate Change, 2015

<sup>2</sup> <http://www.ons.gov.uk/ons/rel/subnational-health2/excess-winter-mortality-in-england-and-wales/2013-14--provisional--and-2012-13--final/stb.html>

<sup>3</sup> *The Cold Man of Europe*, Association for the Conservation of Energy, 2013

<sup>4</sup> Age UK's calculation based on the method described in South East Regional Public Health Group Factsheet (2009) Health and Winter Warmth. This made use of a calculator produced by the Chartered Institute of Environmental Health to estimate the total cost to the NHS in England arising from cold homes. Age UK updated its figure (£859 million) using 2011 household numbers estimates for England (Office for National Statistics) and the GDP deflator (from HM Treasury's website) to inflate the estimates to 2011/12 prices.

<sup>5</sup> This is an estimate, based on multiplying 20,000 excess winter deaths per year by 15 years.

<sup>6</sup> <http://www.theyworkforyou.com/debates/?id=2015-06-25a.1024.7&s=addressing+fuel+poverty+will+remain+a+priority+of+this+Government.#g1025.2>

<sup>7</sup> *Left out in the cold: The reduction in energy efficiency support for UK households*, ACE and Energy Bill Revolution, 2015. Available at: <http://www.ukace.org/wpcontent/uploads/2015/02/ACE-and-EBR-fact-file-2015-01-Left-out-in-the-cold.pdf>

<sup>8</sup> *An end to cold homes: One Nation Labour's plans for energy efficiency*, Labour Party, 2014

<sup>9</sup> <http://www.respublica.org.uk/wp-content/uploads/2015/03/Out-of-the-Cold.pdf>

<sup>10</sup> <http://www.building.co.uk/contractors-fear-sudden-cut-to-%C2%A313bn-eco-programme/5062870.article>

<sup>11</sup> <http://energiesprong.nl/transitionzero/>

<sup>12</sup> *Domestic Green Deal and Energy Company Obligation in Great Britain*, Headline report, Department of Energy and Climate Change, 2015

<sup>13</sup> <http://www.respublica.org.uk/wp-content/uploads/2015/09/After-the-Green-Deal.pdf>

<sup>14</sup> *Driving demand for home energy improvements*, Fuller, M., C. Kunkel, M. Zimring, I. Hoffman, K.L. Soroye, and C. Goldman, Berkeley: Lawrence Berkeley National Laboratory, 2010

<sup>15</sup> Age UK case study

<sup>16</sup> *A Local Approach to Energy Efficiency*, Which?, 2015

<sup>17</sup> <http://www.respublica.org.uk/wp-content/uploads/2015/09/After-the-Green-Deal.pdf>

<sup>18</sup> <http://www.respublica.org.uk/wp-content/uploads/2015/09/After-the-Green-Deal.pdf>

<sup>19</sup> <http://www.publicfinance.co.uk/news/2014/09/council-tax-discounts-would-drive-green-deal-changes-say-mps>

<sup>20</sup> <http://www.respublica.org.uk/wp-content/uploads/2015/09/After-the-Green-Deal.pdf>

<sup>21</sup> *Saving Energy in the Netherlands: New EU Directive takes on Energy Efficiency*, ING, 2013