Effective Policy, Efficient Homes

Refreshing the UK's approach to retrofitting homes

Policy briefing

A future government must be ambitious in addressing household energy efficiency as an urgent priority, and this paper argues that:

- **A refreshed, long-term household energy efficiency policy framework is needed**
- **Driving consumer awareness and demand should be a key priority**
- **The UK needs a successor to the Energy Company Obligation that delivers for fuel-poor and low-income households**
- **An improved Green Deal finance offering should be part of a suite of flexible, low-cost finance options**

In a context of rising energy prices and static wage growth, energy efficiency presents a sustainable path to managing household bills, both now and over the longer-term, as well as supporting the UK's broader energy and climate change objectives. But to maximise the UK's potential, we need a new government to come forward with a refreshed approach to retrofitting homes.

With household incomes squeezed, energy efficiency provides the most sustainable solution to help people manage rising energy bills. Moreover, improving the energy efficiency of our existing housing stock can contribute to the UK's wider energy and climate change objectives of security of supply and decarbonisation.

CBI polling conducted in the summer shows that support for energy efficiency among consumers is high, with over two-thirds of the public agreeing that it is the best way to tackle rising energy costs.[1] Yet current policy has failed to help translate this consensus into widespread action, with the Green Deal far from meeting expectation and the Energy Company Obligation (ECO) challenged by complex design and uncertainty.

The task of creating and implementing successful retrofitting of our homes is a challenging one, but a future government must step up to the plate. Importantly, they must act with a sense of renewed momentum to learn the lessons from current and past policies to deliver a durable approach which inspires the confidence of households and businesses.

This approach will require multi-channel action, based around what works for consumers and which supports a sustainable and dynamic market for industry. We must first understand how to engage consumers and drive action. Secondly, a new government must urgently press ahead with a scheme focused on the fuel poor and low-income, to replace ECO which ends in 2017. Finally, we must encourage a range of finance mechanisms to facilitate action by those who are able to pay.

A refreshed, long-term household energy efficiency policy framework is needed

Improving the energy efficiency of our homes can provide a triple win by helping consumers to save money, growing the energy efficiency industry and boosting the economy as a whole. While some progress has been made, overly complex and frequently changing policies have led to a loss of faith among both industry and the public. With the energy efficiency challenge stretching far beyond parliamentary cycles, a new government must act swiftly to make energy efficiency a national infrastructure priority, and build consensus around a long-term, coherent approach, which inspires confidence, delivers results and maximises the opportunity energy efficiency offers.

Energy efficiency is the most sustainable solution to help manage rising energy bills, as well as support the UK's wider energy and growth objectives

With the cost of living in the UK an important concern, rising energy prices have presented a real challenge to households across the country. While improving competition in the energy market, for example, will certainly be helpful in terms of putting downward pressure on prices, making our homes more energy efficient (**see box 1**) is the most sustainable route to managing bills over the long-term. Indeed, the evidence suggests that there is a strong correlation between expenditure on energy and the energy efficiency of a building. Building Research Establishment (BRE) research shows that, regardless of the type and size of the house, annual energy costs decreased as Energy Performance Certificate (EPC) ratings – the indication of a building's energy performance – improved.[2]

Beyond the direct benefits to households, improving the energy efficiency of the UK's existing housing stock would have an important impact on the UK's wider energy objectives. First, it could make a major contribution towards meeting the UK's target to reduce its carbon emissions by 80% on 1990 levels by 2050, with the residential sector accounting for 65% of buildings emissions, and 13% of the UK's overall carbon emissions.[3] Furthermore, by helping to reduce the UK's energy consumption, household energy efficiency can help to improve our security of supply by lowering our energy imports and thus our exposure to international energy market price volatility.[4]

Finally, energy efficiency as a whole – including both the household and business sectors – has an important role to play in the UK's economy. The 2013 CBI report, *Shining a Light*, estimated that a more energy efficient UK could contribute to a 1% boost in GDP and support a domestic market for products and services worth £17.6bn.[5] The energy efficiency industry accounted for around 136,000 jobs as of 2011/12 in the UK, and has the potential to create more as a result of an effective energy efficiency drive.[6]

Box 1: Defining Energy Efficiency

Household energy efficiency is about using less energy without compromising the outcomes households use energy to achieve, such as heating, hot water and lighting. This paper addresses energy efficiency in the existing housing stock, including the installation of energy efficiency measures and behavioural changes that lead to a reduction in household consumption of energy.

… But the policy framework to date has failed to tackle the household energy efficiency challenge at scale

Despite the clear benefits of household energy efficiency, the UK still has some of the draughtiest homes in Europe, and millions of people remain in, or at risk of, fuel poverty. Having gone through considerable change in recent years, the current policy landscape aimed at addressing this – comprising of the Energy Company Obligation (ECO) and the Green Deal (**see box 2**) – has generated mixed results. ECO has so far delivered on its objectives, however implementation has been made more difficult by its complex design, while the Green Deal is far from reaching its ambition to refurbish 14 million homes, with just over 8,000 Green Deal Plans currently being progressed. In addition, the transition from earlier schemes – the Carbon Emissions Reduction Target, (CERT) and the Community Energy Saving Programme (CESP) – to ECO and the

Green Deal resulted in negative consequences for some parts of the energy efficiency supply chain (**see box 3**), including job losses due uncertain consumer demand.

Box 2: Current policies - ECO and Green Deal

The **Energy Company Obligation (ECO)** was introduced in January 2013, to replace the Carbon Emissions Target (CERT) and the Community Energy Saving Programme (CESP). It places a legal obligation on larger energy suppliers to delivery energy efficiency measures to domestic energy users in line with a number of targets. Originally set to run until 2015, the scheme was extended to March 2017.

The **Green Deal** was introduced alongside ECO to help households and businesses make energy efficiency improvements. Over 400 000 Green Deal Assessments, the energy audits undertaken as part of the scheme, have been completed as of the end of November 2014, and 8,133 households had Green Deal Plans in progress, financed by the Green Deal Finance Company (GDFC).

Beyond these specific difficulties, the overarching challenge has been a lack of long-termism and clear objectives. Although the need for long-term thinking and clarity of objectives has been recognised e.g. through the long-term goal in the fuel poverty strategy, this has not been translated into action, which has impacted on confidence among both consumers and industry.

As such, in order to ensure that both business and the public can reap the full benefits of household energy efficiency, we must learn the policy lessons for the future.

We need a longer-term policy outlook to support consumers and build a sustainable market

The energy efficiency challenge facing the UK's existing housing stock goes far beyond Parliamentary cycles, and therefore requires a long-term outlook that delivers for all segments of society – those in, or at risk of falling into, fuel poverty, who require targeted support, and those that are able to pay for energy efficiency measures themselves.

A new government must set this in motion with a renewed sense of urgency and ambition, which the CBI believes could be supported by designating energy efficiency a national infrastructure priority. This would encourage a longer-term policy view which could support a sustainable and politically durable energy efficiency strategy. More specifically, industry would like to see:

- Demonstrable long-term, cross-party commitment to improving the energy efficiency of the UK's housing stock, underpinned by clearly identified aims and objectives
- Inclusion of energy efficiency in the National Infrastructure Plan, and consideration alongside the delivery of smart meters, energy generation and network infrastructure by a future independent infrastructure body
- Eligibility for the use of the government's balance sheet e.g. through guarantees for loans from the Green Deal Finance Company or an appropriate loan aggregator
- Eligibility for capital investment funding, considered alongside other infrastructure priorities, when fiscally sensible.

Box 3: The energy efficiency supply chain

The supply chain in the energy efficiency industry is made up of manufacturers and installers of energy efficiency measures including insulation, double glazing, enabling technologies, draught proofing measures, boilers, etc.

Driving consumer awareness and demand should be a key priority

Achieving household energy efficiency refurbishments at scale will be impossible without the buy-in from, and direct engagement with, the public. As such, a future policy framework must have consumers at its heart.

Whether they are fuel poor, have low-incomes or are relatively affluent, people need to understand in clear and simple terms the benefits to them of taking action. Households should also have access to the right information, presented in a user-friendly way, to help them make informed decisions about the changes they want to make to their home. But with awareness and information only likely to get us so far, consideration should also be given to the sensible nudges – through both regulations and incentives – that could help to drive sustainable action and a long-term market.

There should be a clear and coherent national campaign on energy efficiency…

A clear part of driving consumer demand is improving the public's awareness of the benefits of energy efficiency. However, current messaging around energy efficiency is convoluted, for example with the Green Deal giving overlapping stories of reducing energy bills and carbon footprints. Therefore, while individual marketing should be left to the private sector, a future government should look to implement a clear, long-term national campaign that encourages households to act.

Within this, industry and government should aspire to use a common language to communicate a clear, consistent message which is focused on what consumers want. For example, the CBI's 2011 report, *Buying into It*, showed that, when considering insulation, people are more motivated by cost savings than 'going green'. Beyond reducing bills, there are also clear health benefits associated with warmer homes, which can prevent excess winter deaths.[7] Therefore, a future government should place a clear emphasis on the things that matter to people – affordability, warmth, health and comfort – complemented by publicising local examples of the benefits of successful retrofit.

A future UK government should also look to learn lessons from the Scottish campaign on household energy efficiency, *Home Energy Scotland*, which has been successful in generating a visible and compelling campaign, and signposting the dedicated Home Energy Scotland advice line.

…accompanied by easily accessible and engaging information for consumers

Clear communications should be underpinned by ensuring information is readily available to consumers in a simple and accessible format. Energy audits, which look at the energy used in homes and assess which actions could be taken to improve their energy efficiency, can be a useful tool to provide households with appropriate information. To this end, lessons can be learned from the assessments done under the Green Deal which, although providing some useful information on consumer behaviours, are costly in comparison to EPCs – which rate a building's energy performance - and short-term in their outlook.

Therefore, a future government should encourage the delivery of improved energy audits that are cost-effective and take a longer-term outlook, detailing a range of measures that would enable consumers to achieve a whole-home retrofit, either immediately or in the future. The audits should include the savings a household can expect to achieve over the life-time of the measure, helping consumers to make informed decisions about the improvements they choose to undertake, while gathering important information about the UK's housing stock.

Beyond this, new methods for informing consumers should also be explored. One which could be better utilised is a simple online household energy assessment tool, such as that already offered by the Energy Savings Trust. With better signposting to improve awareness of the tool, this could be a cost-effective, accessible and unobtrusive way to support people who are looking to better understand their energy use, and encourage behavioural change.

Smart meters are also an important technology for putting consumers in control of their energy use by providing near real-time information on the energy they are using and how much it costs. This could act as a key driver of consumer engagement with the energy market. In order to meet the roll-out deadline of installing 53 million smart meters in domestic properties by the end of 2020, there is a role for both government and industry to ensure cost-effective and timely delivery.

…and the right incentives and regulations to drive sustainable demand

While access to data and new technologies could engage consumers in the household energy efficiency market by raising awareness of their energy usage, information alone will not drive consumers to act. Therefore, a future government must look to develop a comprehensive framework of incentives and regulations to create the right environment for engaging consumers and driving demand.

In the short-term, simple and consumer-friendly incentives can be a helpful way to kick-start action, particularly in the able-to-pay market, as demonstrated by initiatives such as the boiler scrappage scheme in 2010. However untested or poorly piloted schemes can result in overly-generous incentives with insufficient rigour around their allocation, as was the case with the introduction of the Green Deal Home Improvement Fund (GDHIF) in 2014, which exhausted the £120 million budget for cash-back vouchers in a matter of weeks. Not only does this present a risk to the stability of the energy efficiency market, potentially perpetuating the stop/start culture that has been so challenging for the industry to date, but it can also devalue the importance of energy efficiency among consumers.

As such, lessons can be learned from this. The CBI supports the continuation of the GDHIF using the budget already allocated in Autumn Statement 2013 and the additional funds committed in October 2014, but it must be improved, to ensure it drives more sustainable demand. In particular, following a strong value-for-money assessment, a refined GDHIF should both ramp up and decrease slowly, with specified end-dates, giving sufficient visibility of the allocated funds to the supply chain (see **box 3**) and consumers. Importantly, all future programmes should be tested to ensure they are cost-effective and appropriately targeted.

In the longer-term, the CBI believes that the value of energy efficiency can and should be embedded in the property market. To this end, a future government should explore a range of levers to encourage the uptake of measures at the point of property purchase and development.

One option to achieve this could be to vary a property's Stamp Duty according to its energy performance, as part of a longer-term reform of property taxes. This type of market signal could be implemented in a fiscally neutral way, and incentivise home-buyers and home-owners to value energy efficient properties more highly.[8] Other mechanisms should also be explored, such as having mortgage providers consider ongoing energy costs of a property as part of the affordability criteria for mortgage approvals.

There is also an important role for smart, simple and carefully targeted regulation to help drive the energy efficiency market. For example, the CBI supports an ambitious long-term target for all Private Rented Sector (PRS) properties to achieve an EPC rating of C by at least 2027, which must be well-enforced in order to be effective. To ensure steady progress towards this goal, interim targets should also be put in place, using the current target to achieve an EPC rating of E by 2018 as the first, plus a further interim target in the early 2020s. These timeframes should provide sufficient foresight and certainty to landlords and tenants.

A multi-measure approach should also be encouraged in the PRS, giving landlords flexibility and choice in the way they comply with regulations. There should also be consideration for those properties that are hardest to treat, and the affordability of meeting EPC targets should be properly evaluated.

A further example of the long-term use of regulation is the potential to extend 'consequential improvements' to the domestic sector, a measure whereby energy efficiency improvements are required by the Building Regulations when certain works are undertaken on an existing building. Despite past unpopularity, if implemented in a way that is cost-effective and avoids unintended consequences, this could prove a useful trigger point to drive further efficiency saving.

In order to drive consumer awareness and demand a future government should;

- Implement a clear, consistent, long-term national campaign that focuses messages around cost-savings and wellbeing
- Provide meaningful information to consumers through energy audits and online information tools that encourage a long-term approach to whole-home energy efficiency
- Work with industry to ensure that the roll-out of Smart Meters is delivered in a cost-effective and timely manner

- Consider a range of incentives and regulations to drive demand including a refined Green Deal Home Improvement Fund, and measures to embed the value of energy efficiency in the property market.

The UK needs a successor to the Energy Company Obligation that delivers for fuel-poor and low-income households

While it is crucial that consumers start to value energy efficiency, we must also acknowledge that some people will require targeted support to pay for it. At present, ECO is the main policy for the subsidised installation of energy efficiency measures. Despite having been successful in delivering just under 1 million measures as of the end of October 2014, the scheme has faced a range of challenges, particularly regarding its complexity and stop/start nature.

With the current regime due to come to an end in 2017, a new government has a real opportunity to learn the lessons of ECO and design a successor that is long-term, cost-effective, simple and, importantly, targets limited subsidy towards those most in need. It is crucial that any transition to a new scheme should provide sufficient lead-in time so as to avoid a hiatus that could be particularly damaging to the supply chain. Furthermore, it should be seen as an evolutionary process with the aim of ensuring the best long-term outcomes for both consumers and industry.

Targets should be well-defined, long-term and stable

ECO currently requires the larger energy suppliers to deliver energy efficiency measures under three separate targets, two of which are measured by property specific carbon savings (Carbon Emissions Reduction Obligation and Carbon Savings Community Obligation), and one of which is measured in savings on energy bills for consumers (Home Heating Cost Reduction Obligation). This layering of targets has created a significant level of complexity for those delivering the scheme.

A further challenge presented by ECO is its short-term and unstable nature. With the scheme originally established between 2012 and 2015, the obligated companies and supply chain had little visibility beyond this. The subsequent extension of the scheme to 2017, accompanied by a reduction of 33% to the primary carbon target, although easing the pressure on consumer bills at a time when affordability was a growing concern, also caused significant instability in the market as well as hundreds of job losses across the supply chain. Every effort must be made to ensure that a refreshed policy puts an end to this stop-start activity, and provides the stability needed to see growth, research and development in the supply chain.

Learning from this, a future policy should have a long-term target to provide reasonable visibility to households and industry, as well as long-term ambitions to align the scheme with the fuel poverty strategy.

Furthermore, the target should be simple, and clearly reflect the primary objective of the energy efficiency programme. With this in mind, industry believes that future objectives and subsidy would be best focused on those that need it most – the fuel poor and low income households – ensuring alignment with the government's new Fuel Poverty Target, rather than continue with a multi-target, multi-objective approach.

An appropriate proxy (such as low-income households, with EPC band D or lower) should be put in place to determine those eligible, with robust data sharing legislation in place to help identify them. One way to achieve this, which could be an effective use of funding, is to develop a central database of EPC ratings, overlaid with household income information. It must also be recognised that within the group identified by the proxy, there will be households with a greater need than others. As such, sub-groups may be prioritised over the long-term, and the most effective approach to hard-to-treat properties, such as those that are rural off-gas grid, should be explored.

Finally, while targets should be clear and simple, it is important the multiple benefits of energy efficiency are measured throughout the implementation of a new programme. For example, while carbon savings may not be the primary outcome in a future scheme, it is important that the emissions reduction outcome is captured in some way to allow the authorities to measure its contribution to meeting the UK's long-term carbon targets.

An alternative funding approach should be considered over the long-term

Consideration of how best to target future subsidy must go hand in hand with consideration of how that subsidy is most appropriately funded. ECO is currently funded by suppliers recouping the costs of delivering their obligation by adding it to consumer energy bills. Industry believes this funding method to be regressive as the entire population pays for the scheme, yet not everyone benefits from it, and the costs can disproportionately impact on vulnerable and low-income households, who often have higher energy bills. Thus, there is a strong argument to find a more progressive funding mechanism in the future.

In the current fiscal climate, the CBI expects that ECO will continue to be bill-payer funded until its completion. If this is the case, ensuring there is fair visibility of the cost of the scheme for both consumers and industry is important.

Over the longer-term, alternative funding mechanisms should be explored, one of which may be government capital investment. The CBI believes that public sector net investment should first be maintained as a share of GDP in the next Parliament and then increased as soon as the deficit is eliminated. Therefore, in the context of energy efficiency as a national infrastructure priority, a future government could consider a new programme dedicated to the fuel poor and low income alongside other infrastructure priorities for any additional capital spending that becomes available to infrastructure projects as a result.

Another option is to more effectively align funding across government departments where they have complementary objectives, such as aligning energy efficiency, fuel poverty and health. This would require a smarter and more joined up approach from government to bring relevant departments together to identify where objectives overlap and where funding can potentially be most effectively allocated.

Should a future energy efficiency scheme continue to be bill-payer funded post-2017, it is important that costs are kept under control. One option that could be explored would be to cap or fix the amount that could be collected from consumer bills, ensuring that the cost is clearly communicated to consumers and industry and itemised on consumer bills to ensure transparency.

Delivery mechanisms should be robust and cost-effective, with clear lines of accountability

A current point of debate around a post-2017 regime is whether a scheme should continue as a supplier obligation. In answer to this, the broad industry view is that a future scheme should be suitable for all types of participants, and should draw on the expertise of a range of delivery agents. For example, larger energy suppliers have lead the delivery of ECO, and thus have experience and systems in place to continue to provide this function in the future. There have also been successful locally delivered programmes to date, and Local Authorities could play an important role in the delivery of a future energy efficiency programme. Therefore, all those who possess the right skill-set and expertise to implement the programme effectively should have the opportunity to bid into a system which is competitive and transparent in order to deliver for consumers and industry.

Importantly, irrespective of which body delivers them, all programmes should also be subject to stringent cost-effectiveness tests, and should programmes be delivered through a local-area approach, best-practice and appropriate guidance must be provided in order to ensure it does not result in a post-code lottery. Furthermore, accountability for meeting future targets should be clearly defined and enforced, with known implications for failing to deliver.

A future scheme should enable flexibility and innovation

It has been suggested that the structure and framework of ECO compliance has been particularly challenging, driving up the cost of the scheme. As such, there must be flexibility in the future delivery of energy efficiency measures, to reflect the different needs of households, and the measures available to them.

A future scheme should drive innovation particularly with regards to incorporating new technology, such as web-controllable heating systems, which can play an important role in changing the way consumers engage with the energy market and communicate with energy suppliers. Consumers who do not have access to this new technology, or are unable to use it, should not be neglected, however, and there is a role for industry in ensuring that customer service is

capable of meeting the needs of those who choose not to or cannot engage with new technologies.

A future programme should also encourage a multi-measure approach

In order to achieve more substantial energy efficiency savings for households, a future programme should encourage a multi-measure approach, where more than one energy efficiency measure is installed in each eligible household. Installing loft insulation and draught proofing measures at the same time, for example, will achieve more substantial benefits than a single measure approach. This can also reduce the hassle factor for consumers allow greater consideration for consumer preferences.

Beyond the immediate installation of energy efficiency measures, a future scheme should also provide a long-term outlook for the property, via useful and cost-effective energy audits, of how to achieve a whole-home retrofit, as detailed in the previous section. This plan should indicate a range of measures that can be undertaken to achieve a whole-home retrofit, detailing the savings that can be expected over the life-time of each measure. This would allow a future programme to prioritise measures in a cost-effective way in order to achieve the most savings for a household over the life-time of a measure, given the limited availability of subsidy. Importantly, households should have a choice when it comes to the extent of measures they receive, recognising the significant disruption and additional cost that can result from the installation of some measures.

Implementing a refreshed energy efficiency programme targeted at fuel-poor and low-income households should be an urgent priority for government and should;

- Have a simple, long-term target, which aligns with the fuel poverty strategy and provides visibility to consumers and industry
- Consider alternative funding mechanisms over the longer-term and when fiscally sensible
- Ensure delivery mechanisms are robust, cost-effective, and competitive and encourage a multi-measure approach

An improved Green Deal finance offering should be part of a suite of flexible, low-cost finance options

With future subsidy for energy efficiency measures best targeted at vulnerable households, it is important that those who are not eligible for subsidised measures have access to a range of finance options to help overcome the upfront cost barrier to retrofitting their homes. Pay as you save loans, such as those offered under a Green Deal Plan remain an important offering and can be improved to be made more attractive to consumers. Beyond this, government and industry should be encouraged to work together to develop alternative options.

The Pay as You Save model remains valuable, but costs must be reduced to make it a compelling offer

The establishment of the Green Deal Finance Company made Pay as You Save (PAYS) loans accessible and this demonstrates progress in facilitating the able-to-pay market. However, the interest rates of Green Deal Finance Plans at 6.96%, over a pay-back period of up to 25 years, have proven unattractive to consumers. The relatively high interest-rate and the length of the pay-back period could go some way to explaining why only just over 8,000 plans were in progress at the end of November 2014.[9]

The CBI is supportive of the PAYS principle and believes that the offer can be made more attractive to consumers. Taking action to reduce the interest rate on PAYS loans would be a sensible first step, and the CBI supports the use of a government guarantee, in order to achieve this. It is not clear at this point what interest rate would be most effective. Indeed it is not clear that 0% interest loans would effectively drive the uptake of measures by the able-to-pay market to a much greater extent than a low interest rate loan (4-5%). Therefore a detailed cost-benefit analysis should be conducted to determine whether subsidising 0% interest loans is an effective use of funds.

The UK should learn from the experience of Germany's national development bank, KfW, which offers low-interest loans though commercial banks which process the credit application, absorb the risk and agree the loans. KfW sets a published maximum rate of interest, and provides a refinancing loan to the commercial bank, which has widely been recognised

as a successful low-interest rate finance option. However, it is important to note that the success is not solely dependent on the rate of interest, but also demand from German households. Therefore, low-interest loans should be complemented by a range of incentives and regulations – as outlined in section two – that encourage consumers to act.

Beyond reducing the interest rate, there could be value in offering more flexibility in PAYS loans, although the implementation of this would have to be cautious to protect consumers. Giving consumers the option to pay the loan back more quickly, for example, could make it more attractive to some consumers.

Further finance options should also be encouraged

Beyond PAYS, alternative finance options should be encouraged to suit consumer preferences, fill the gaps in the current market, and reflect the range in price of different energy efficiency measures and consumer preferences.

One option is a salary-sacrifice scheme for energy efficiency measures, which would operate in a similar manner to the Cycle-to-Work scheme, where the tax burden is removed by HM Treasury. Employers could choose to offer vouchers to employees to purchase energy efficiency measures for their homes, as part of their range of employee benefits. A suggested cap of £1000 would allow employees to purchase a range of measures including cavity-wall insulation, LED lighting and draught-proofing measures, repaying the loan directly from their pay cheques, over a period of 1-3 years. Although this would not cover more expensive measures, such as Solid Wall Insulation, engaging consumers through a trusted intermediary, such as their employer, could encourage the uptake of measures and behavioural change both at home and in the workplace.

A further option to explore over the long-term is the opportunity to mainstream green mortgages, which take into account the energy efficiency of a property when evaluating mortgage applications, and/or offer additional funds for the installation of energy efficiency measures that will add to the value of the property. These could both provide insight to consumers as to their expected outgoings, and allow mortgage lenders to more accurately assess the affordability of mortgage repayments. Bolt-on products could also be explored to extend existing mortgages, enabling households to install more substantial energy efficiency measures. This could be a helpful product for those considering more expensive measures, such as Solid Wall Insulation, and should be explored further by government, industry and consumer representatives.

To ensure that a range of finance options are available to facilitate the able-to-pay market, a future government should;

- Explore the use of government guarantees to reduce the interest rate of Pay as You Save loans
- Explore increasing the flexibility of PAYS loans, while preserving the consumer protection it offers
- Encourage a range of finance mechanisms including salary sacrifice schemes, asking HM Treasury to remove the tax burden, to engage consumers through employers.

Conclusion

Ultimately, making the UK's existing housing stock more energy efficient must be a priority for a future government. Getting the policy framework to address this challenge right requires a three-pronged approach, supported by designating energy efficiency a national infrastructure priority.

First, government and industry need to understand what consumers want and provide the right information and communications to cultivate demand. This must be underpinned with a range of tried and tested incentives and regulations that translate awareness into action.

Secondly, there must be an evolved strategy dedicated to fuel-poor and low-income households that builds on the lessons learned from previous and current policy and effectively engages with consumers to deliver cost-effective, multi-measure retrofits, and achieve the aims of the Fuel Poverty Strategy.

Finally, we need to see a range of finance mechanisms made available to the able-to-pay market, in order to facilitate the installation of measures, including a more attractive pay-as-you-save loan option, salary sacrifice schemes operated by employers and the encouragement of 'green mortgages'.

Successful household energy efficiency has a vital role to play in tackling the energy trilemma of affordability, security of supply, and decarbonisation. Therefore, a future government must act quickly to implement a refreshed, comprehensive household energy efficiency strategy and realise the full potential of an energy efficient UK housing stock.

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[1] CBI, *Business and Public attitudes towards UK energy priorities,* July 2014

[2] Wales Low/Zero Carbon Hub & Constructing Excellence in Wales, *EPCs & Mortgages,* 2014

[3] Committee on Climate Change, *Factsheet: Buildings*, 2014 http://www.theccc.org.uk/wp-content/uploads/2014/08/Fact-sheet-buildings2014_Final1.pdf

[4] DECC, *The Energy Efficiency Strategy,* Nov 2012

[5] CBI, *Shining a ligh*t, 2013

[6] CBI, *Maximising the potential of Green Business*, 2014 and DECC, *Energy Efficiency Strategy 2013 Update*

[7] Age UK, *Reducing fuel poverty – a scourge for older people*, and National Energy Action

[8] For more information on incentives, see UKGBC, *Retrofit Incentives*, July 2013

[9] DECC, *Domestic Green Deal and Energy Company Obligation in Great Britain, Monthly report*, December 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388325/Monthly_Statistical_Release_Green_Deal_and_ECO_in_GB_18_Dec.pdf

For further information or a copy in large text format, please contact:

Annie Crawford, Policy adviser, CBI

T: 020 7395 8201

E: annie.crawford@cbi.org.uk