Written Evidence to Bright Blue's new research project
on home energy efficiency
from the Mineral Wool Insulation Manufacturers' Association (MIMA)

1. Introduction:

The Mineral Wool Insulation Manufacturers Association (MIMA) is a trade body providing an authoritative source of independent information and advice on glass and stone wool insulation. We represent four of the leading insulation companies in the UK - Isover Saint-Gobain, Knauf Insulation, Rockwool and Superglass.

2. Why did the Green Deal fail? In particular, what mistakes were made in the design of the finance mechanism and the communication of the scheme?

There are three primary reasons why the Green Deal and energy efficiency policies in the retrofit market have not delivered the results the government and the industry hoped for:

I. Recent policies have focused on finding ways to help people pay for energy efficiency measures ("enabling" improvements), but not sufficiently on <u>driving stable demand</u>.

The Green Deal utilised the "pay as you save" principle for the "able to pay" market. A portion of the upfront costs of measures could be paid for using the fuel bill savings that would be made over the lifetime of the measure in question e.g. if a measure costed £500 to install, but could save a household £300 per year on the fuel bill, then the energy company concerned would reimburse the installer for the work, and recoup the cost through the energy bill - up to the value of £300 per year (minus an "in use factor"). Even though the measures were making significant energy savings, in reality, until the measure was paid off, there would be little or no direct financial benefit to the consumer and the fuel bill the consumer sees would not be lower (or only slightly reduced).

For the policy to work, the consumer had to trust that they would eventually see a financial benefit from making their homes more energy efficient. They were being asked then to put a charge on their house, however the costs-to-savings ratio for some measures meant they would need payback periods for periods of 20 years or more. Some measures wouldn't pay for themselves at all, meaning that the Green Deal could only offer partial financing for certain jobs. The high-risk cost model meant that the interest rates eventually applied to Green Deal plans were far too high – between 7% and 10%. This further reduced the cost savings the customer would realise in practice.

The Green Deal therefore didn't provide a tangible, short-term financial benefit which might have encouraged more people to take-up the measures in the first place. The policy assumed that if consumers had a way to pay for measures, they would decide to take them up which was not the case. Demand still needed to be strongly incentivised. As a result, although the take-up of Green Deal assessments was relatively high, the number of Green Deal plans actually signed was very low – just 14,000. The ECO was then propping up the programme as a whole.

Steps were taken by DECC and DCLG to drive demand. For example, the time-limited Green Deal Home Improvement Fund was introduced, as well as new energy efficiency requirements for the private rented sector. There is no doubt that the number of installations rose but what resulted was a boom and bust delivery profile as DECC suddenly withdrew funding when the number of applications sky-rocketed, and then re-introduced vouchers in short stints. Such voucher and cash-back schemes can drive demand, but in an uncontrolled way, and focusing on single measures, rather than considering what the whole property might need.

The ECO has proved to be more successful than the Green Deal, demonstrating that creating fixed targets e.g. to save a specified amount of carbon, and making organisations responsible for driving sufficient demand to meet the target, works.

II. The policies did not, in practice, dovetail with <u>natural cycles</u> of house buying, renting, renovations and the heating season, when people are much more likely to make energy efficiency improvements to their house.

Although it was clear that DECC wanted to see natural "trigger points" for energy efficiency being used, the eventual structure of the Green Deal and ECO did not in practice promote this. For example:

- Finance was not linked to mortgage interest rates or stamp duty;
- Estate agents who could promote the energy efficiency credentials of one property compared to another were under-utilised;
- There was a complicated situation where EPCs and Green Deal assessment reports gave different advice; and
- Policies which attempted to link energy efficiency to other home improvements, such as when buildings were being extended were scrapped.

Although retrofitting homes at natural trigger points on their own would be a slow way of getting the job done, future policies should still make as much use as possible of these opportunities.

III. The policy landscape, and the individual policies themselves were/are incredibly <u>complicated</u>, driving up the cost of delivery and hampering innovation.

Officials at DECC worked hard to resolve a myriad of issues during the development of the Green Deal and ECO. Unfortunately, the net result of this effort was a scheme which was extremely complicated.

A large supply chain with a challenging new set of relationships worked to deliver the schemes. Each extra new player needed to operate in a commercially viable way, and this ultimately added cost. It also created a complicated chain of liability, with Green Deal Providers (or ECO Suppliers) bearing the responsibility for work done by other companies. Other examples of complexity are:

- The accreditation rules for the ECO and Green Deal did not match (sometimes for good reason) making it hard to blend Green Deal and ECO finance as intended. The result was that the blending did not happen often.
- The ECO, laudably, attempted to focus on the more difficult installation jobs, such as filling hard to treat cavity walls and on the fuel poor. The complexity of the qualifying criteria meant that thousands of "returns" to Ofgem had errors which had to put right.
- The process for adding new, innovative measures to the programmes was extremely challenging and non-transparent, hampering innovation and penalising companies for going beyond minimum standards.
- The overall policy landscape has "bits" of policy focusing on particular issues. For example, the ECO aims to drive energy efficiency for fuel poor households, but only in the private rented sector. Or EPC "minimum" requirements were implemented, but only for those who wanted to claim the high tariff rates for Feed In Tariffs. There was no overall, long-term target(s) for the industry to work towards and no clarity on how the individual policies would contribute to that target.

The more fragmented the policy landscape is, the harder it is to deliver quality installations. The sector is forced to fixate on trying to understand the rules, rather working with their customers and improving homes.

3. How should Green Deal-style loans for the able-to-pay sector be financed in the future? Is it necessary for the Government to provide any subsidy to the scheme?

There is now a clear opportunity for the Government to improve the UK's existing housing stock and fully insulate our 26 million homes. Driving the energy efficiency of the UK's housing stock to prevent energy and money being wasted must be a central plank of the government's economic, energy and climate change policy. Firstly there must be a commitment to a stable, long-term (at least ten-year) programme with investment in energy efficient housing as an infrastructure priority.

MIMA strongly advocates policies that not only enable people to take up energy efficiency measures (such as low interest loans), but also drives them to want to do it. Drivers such as tax incentives are absolutely critical, as well as a move away from reliance on subsidy. Future policy should take the following shape:

(a) Commit to a long-term (at least ten-year) programme with energy efficient housing as an infrastructure priority.

The Government must promptly demonstrate a renewed commitment to tackling energy efficiency by establishing adequate policies with long-term, ambitious objectives, which restore confidence to the industry. There are a huge number of householders yet to benefit from better energy efficiency.

The House of Commons Select Committee on Energy and Climate Change recommended classifying energy efficiency as infrastructure in their March 2016 report[1]:

"Making energy efficiency a national infrastructure priority would drive demand amongst households, attract investment, create a sustainable and durable long-term policy view that "goes beyond parliamentary cycles". This approach would put energy efficiency much more at the forefront of energy policy making. One option would be to give the responsibility for the oversight of energy efficiency policies to the newly established National Infrastructure Commission. We were told that this would "free up capital funding" and ensure that delivering the benefits of energy efficiency did not rest solely with DECC. We also heard it might help to ensure that policies were not "susceptible to decisions driven by short-term political priorities."

The industry is united in its support for this approach, and the recent reports by ResPublica (see below) and Frontier Economics http://www.frontier-economics.com/publications/energy-efficiency-an-infrastructure-priority/ show how it could be done and the huge benefits to be gained. The research reveals that a programme to make UK homes energy more efficient would provide net economic benefits of £8.7 billion to our economy. This is based on the Governments own economic analysis, delivering comparable economic benefits to infrastructure initiatives such as HS2 Phase 1, Crossrail and new roads.

In addition, ResPublica's report *"After the Green Deal: Empowering people and places to improve their homes"* sets out eight recommendations for how to drive the energy efficiency market by combining national and local funding streams, tax incentives and through new financial mechanisms such as "Help to Improve". See http://www.respublica.org.uk/wp-content/uploads/2015/09/After-the-Green-Deal.pdf

(b) Drive demand by rewarding energy efficient homeowners with lower stamp duty or other tax incentives.

By also requiring that inefficient homes have higher levels of stamp duty, **the approach becomes cost-neutral for HM Treasury**. This incentive has the additional benefit of making energy efficient homes more attractive to buyers and triggers action to improve energy efficiency at a time when people are already thinking about refurbishing or upgrading homes i.e. when they are looking for a mortgage, remortgaging or a loan for home improvements. For more detail see the UKGBC's report http://www.ukgbc.org/sites/default/files/130705%2520Retrofit%2520Incentives%2520Task%2520Group%2520-%2520Report%2520FINAL_1.pdf

(c) Enable householders to "see it through" with low interest loans for energy efficiency improvements and other financial support to reduce up-front costs (fuel poor and able to pay).

Loans would be offered by retail banks and other financial institutions with a 'shop window" i.e. such as high street banks. They have high visibility and an ability to reach out to consumers. Simple to understand, low interest energy efficiency retrofit loans to households have been very successful in Germany for 15 years. It would help to move the industry off the reliance on subsidies, and consumer research in the UK and from other countries supports this. Government guarantee or infrastructure funds could be used to support such low interest offers through the high street banks – A 'Help to Improve' policy to sit alongside 'Help to Buy'. Overtime, should renovated homes be shown to have consistently lower bills, the government guarantee could be replaced by private capital – possibly on mortgage - linked to lower interest rates for energy efficient homes given the increased affordability of the occupants. This is already being explored in the Lenders Project http://www.ukgbc.org/press-centre/press-releases/uk-gbc-partners-ground-breaking-green-mortgages-research.

(d) Support supply chain capacity, up-skilling and requiring high quality delivery.

The Bonfield Review is due to report imminently, and it is hoped this will make tough recommendations related to quality assuring the supply chain and securing consumer trust (see below).

[1] http://www.publications.parliament.uk/pa/cm201516/cmselect/cmenergy/552/55207.htm

4. What lessons do you anticipate from the Bonfield Review about quality assurance in the supply chain? How can these be incorporated into a Green Deal successor scheme?

MIMA has supported the Bonfield Review process, specifically as a member of the Fabric/Insulation sub-group. The Review has identified the need for a more robust, independent quality assurance framework which puts consumer interests at its heart and ensures work is carried out by trusted, competent organisations.

Key elements we wish to see coming out of the Review are:

1) a more robust building assessment process which better judges the condition of properties before improvement work is done and which must consider the whole house, rather than treat walls, and roofs separately.
2) use of technology and apps to track the progress of jobs, enabling more timely technical monitoring
3) a process with clearer lines of responsibility and tough oversight which is not limited to government schemes only, but covers the whole market.

Any scheme must be designed to focus on delivering good quality measures that do not create destabilizing peaks and troughs in demand but enable the industry to produce a pipeline of highly skilled, trained professionals even in the context of a fragmented policy framework and downward cost pressures. The industry must be able to attract, recruit, train and retain qualified, skilled installers to deliver the potential outputs from the Bonfield Review and ensure a stable, sustainable marketplace for consumers.

It is also vital, for both the industry and consumers, that the outcomes of the Bonfield Review are implemented before the new ECO is operational. Failure to do this risks poor quality installations driven by an ECO which is intended to deliver lowest cost work, sometimes at the expense of quality. Naturally, the improved framework should be adopted as part of the Green Deal successor scheme.

5. How can a Green Deal successor scheme be successfully communicated to consumers?

The appropriate communications route will depend on the type of scheme to be implemented. For example, if low interest loans are offered, then it makes sense for banks and/or mortgage lenders to be involved in raising awareness of the finance options. Estate agents also engage with new buyers and renters although they must be given a reason to discuss energy performance given they currently act for the seller with no interest in raising concerns on the efficiency of a property. A financial 'nudge' linking property efficiency and Stamp Duty would address this contradiction.

Messages around comfort and health are known to resonate well with consumers, in addition to the potential for financial savings on energy bills. However, new campaigns should give ranges of estimated energy savings rather than trying to provide exact figures, as buildings all perform slightly differently.

Government appeared to accept there is an inherent 'asset risk' and associated 'occupant risk' attached to energy inefficient homes, in its regulation prohibiting the letting of F or G rated homes yet, with the demise of the Green Deal, it failed to offer an enabling mechanism, or carrot, to accompany the regulatory stick. And without Green Deal the small print of the regulation means the stick will have little impact. Taking up one or more of the solutions outlined above would offer the appropriate signals to property owners of long term direction without being too onerous and also offer enabling mechanisms for those wishing to take action.

Lastly, government needs to back the idea of energy efficiency improvements as a good thing to do in terms of climate change mitigation and energy security, as well as spelling out the benefits for individual consumers. Consumers need to buy into the big picture if we are to see the culture change needed.

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