



ResPublica Recommends...

Out of the Cold: An Agenda for Warm Homes

by Catherine Duggan, Caroline Julian and Richard Sagar

We are facing a cold homes crisis. One in every ten households in England are in fuel poverty; 2.28 million homes are struggling to keep warm.¹ Many of those on low incomes are choosing eating over heating their homes and most are paying up to £1000 more on their annual energy bills than the average household. We are also witnessing a disturbingly high number of winter deaths that are directly connected with poor environments at home.

A large proportion of households report damp, condensation, mould and draughts every year. This is not surprising as 60% of the UK's housing stock is more than 50 years old.² Higher energy bills, coupled with people's lack of assets, leads to far too many falling into fuel debt. Between July and September 2014 alone, nearly 20,000 people contacted Citizens Advice to ask for help because they were struggling to pay their energy bills.³ This is exacerbated by the growing cohort of households who are 'asset poor': nearly 50% of householders in Great Britain have borrowed some sort of finance and the average household debt is £3,600.⁴

The good news is that the energy efficiency of Britain's housing stock has improved since 1998. The number of properties rated as inefficient has halved over 15 years.⁵

The bad news is that we started with one of the oldest and least efficient housing stocks in Europe due to the age and poor quality of our building fabric, and we have 6 million low income homes in the UK with an energy efficiency rating of D or lower.⁶

According to the Committee on Climate Change, 4.5 million cavity walls still need to be insulated, 10 million easy-to-treat lofts could benefit from further insulation and there are more than 7 million solid walls without insulation.⁷ Of the cavity walls which remain uninsulated, 65% are classed as hard-to-treat.⁸

The private rented sector has the worst energy efficiency levels of all housing types (private rented, private owner-occupier, social housing) and the highest percentage of households in fuel poverty, with one in five households classed as fuel poor.

Investment in the UK's housing stock is set to increase by at least £3.6 billion by 2017. Energy suppliers will spend nearly £1 billion a year installing insulation measures in hard-to-treat households and low income areas under their Energy Company Obligation (ECO). In addition, the current UK Government has committed to spend an additional £600 million on household energy efficiency to support 'able to pay' households through the Green Deal by 2016.

Despite this, the current policy framework has not, and is not, addressing some crucial underlying problems. Previous and existing policy measures, and those proposed over the next two years under ECO, are not enough to ensure warm homes for all living in the UK.



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There are three key reasons why ECO in its current guise is not up to the job:

1. Inadequate Reach

– energy suppliers are not incentivised or penalised for ineffectively targeting low income and vulnerable households. The Energy Bill Revolution fact file statistical analysis suggests that very few insulation measures - only 5% - are being installed into low income or vulnerable households under ECO.⁹ Those living in rural areas and off the gas grid also continue to suffer from a lack of support, and are often neglected because they are hard-to-treat and geographically hard-to-reach.¹⁰

Could a new delivery model for ECO better target low income and vulnerable households?

2. Inadequate Scale

– ECO will only create a small dent in the remaining number of uninsulated, cold homes. The latest ECO impact assessment suggests that the programme will lead to the insulation of 438,000 lofts, 722,000 cavity walls and 85,000 solid walls.¹¹ Even if the ECO programme is successful, 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.

Could different providers of ECO deliver more insulation measures through better cost-effective spending of the £3.6billion?

3. Inadequate Stability

– ECO providers currently auction 'lots' of ECO delivery to the supply chain on a fortnightly basis. Since ECO was launched in 2013, there have been 52 auctions of which 11 saw no contracts let.¹² Householders, the supply chain, local authorities and housing providers have lost trust in the market.

Could a new delivery model and ECO provider restore confidence in the market?

The standard ECO model delivered by the obliged energy suppliers is not working. New ways are needed to respond to the existing barriers and to ensure energy efficiency improvements are delivered at scale and reach those who are most in need.





An Agenda for Warm Homes

ResPublica believes in crafting public policy that fully supports the flourishing of people and their communities. Living in a warm and comfortable home is a vital part of this, enabling individuals and families to meet their needs, and empowering them to thrive.

We have argued elsewhere that public services can better respond to people's needs when they are local, bespoke and holistic.¹³ This argument extends to services that deliver to those suffering from cold and uncomfortable homes.

We therefore call for a more bespoke way of targeting those in need, a more devolved means of delivering such services and more creative methods to leverage the required funds.

The policy recommendations set out in this paper outline a new model to be implemented after the current ECO programme expires in 2017. In the interim, Government needs to achieve three short-term goals:

1. Confirm support and commitment to a long-term energy efficiency policy framework post 2017.

Currently, the ECO programme and the Green Deal are the only markets which are guaranteed to run until March 2017. This short-term framework does not provide businesses, local authorities and housing providers with the long-term certainty needed to make investment decisions. It is recommended that a longer term strategy should run until at least 2020.

2. Reconsider how best to incentivise take-up, and increase funding of more expensive energy efficiency measures for hard-to-treat properties and low income and vulnerable households under ECO.

For example, Government could lead an investigation with Ofgem into trading between the three arms of ECO – Carbon Emission Reduction Obligation (CERO), Carbon Saving Community Obligation (CSCO) and Affordable Warmth - to increase the number of low income households benefiting from these measures.

3. Increase data-sharing between Government departments, energy suppliers and local authorities, to help identify fuel poor and low income households in a more efficient and cost-effective way.

The Department for Work and Pensions (DWP) and HMRC have full information on household income and benefit status, and are best placed to identify those householders who would most benefit from ECO intervention. Ofgem also identified that many energy suppliers and distribution companies maintain priority service registers, which gather information about some of their vulnerable customers. This data could be shared confidentially with local authorities, housing providers and city regions delivering existing area-based schemes.

Green Deal is the sister programme to ECO aimed at the 'able to pay' market. In order for the area-based delivery model for ECO to work, the 'able to pay' market would need to sit alongside so that all households in one area would be offered support for home improvements at the same time.

This paper is focused on ECO and offers recommendations to alleviate fuel poverty and its connected impacts on people. ResPublica will outline policies directed at the 'able to pay' market in more detail in a forthcoming paper.



Policy Recommendations

Target

1.

Citizens should have the right to not only request energy efficiency improvements, but also enforce energy efficiency standards in the private rented sector. Local authorities should create 'citizen-led enforcement' schemes to enable tenants, GPs, social workers, health visitors and heating technicians, amongst others, to report potential breaches of energy efficiency standards in private rented homes, which would trigger a penalty charge on repeat offenders.

Local authorities have the power and discretion to use 'selective licensing' of private rented properties – a compliance measure to ensure landlords improve their properties to the minimum energy efficiency standards set by Government. The existence of these licensing measures, however, has not been enough: one in five households remain in fuel poverty in the private rented sector. Policing selective licensing is also resource intensive and not self-financing.¹⁴ It can be expensive for local authorities to prosecute a landlord, and even if the landlord is fined a maximum of £20,000, it very rarely covers the costs of prosecution. The shortfall of costs is borne by the local authority.

To help local authorities enforce selective licensing, citizens – whether they be tenants, social workers, health visitors or heating technicians – should have the power to report landlords whose properties are potentially breaching energy efficiency standards. Multiple reports, or breaches that are not remedied within a fixed period of time, should then trigger a penalty charge for landlords who own two or more properties. Government should introduce new rules to allow local authorities to impose this penalty charge without recourse to court action.¹⁵

2.

Health and Wellbeing Boards should enable GP practices to have a stake in the savings made via 'warmth on prescription' referrals. The reduced demand on NHS services due to improved environments at home should be financially quantified, and a proportion of the savings returned to both the GP practice and the local authority should be invested in further early intervention.

This should be part of Health and Wellbeing Boards' strategies to address the health consequences of cold homes, and build on the GP referral scheme, as recently recommended by the National Institute of Clinical Excellence (NICE).¹⁶

3.

Government should introduce a more ambitious target to upgrade all properties connected to the gas grid in the private rented sector to a minimum standard of Energy Performance Certificate (EPC) C by 2025, with an interim target of EPC D by 2020. For properties in rural areas which are off the gas grid, standard will be lowered to EPC D by 2025 and EPC E by 2020. To help incentivise landlords, Government should extend the existing Landlord Energy Saving Allowance (LESA) to 2025, with an increased allowance of £4,750 - the average cost of upgrading an E, F or G rated property to a C rated property - for all landlords, which should then be decreased to £3,000 after 2018 and to £1,500 after 2020.

Policy Recommendations: Target



Currently, Government is proposing to legislate that landlords upgrade properties to an EPC E by 2018, and that as many fuel poor homes as is reasonably practicable achieve a minimum energy efficiency rating C by 2030.¹⁷ This is not sufficient: this target would only help 14% of fuel poor households over the next three years and will not address the 1.8 million EPC E and D rated homes that would be left out in the cold for another 15 years.¹⁸

New targets should be proposed to upgrade properties connected to the gas grid in the private rented sector to a minimum of an EPC D by 2020 and EPC C by 2025.

Under the current EPC design, it will be much harder and significantly more expensive for rural landlords with properties off the gas grid to be able to achieve the same targets as urban landlords. For properties located in rural areas off the gas grid, the permissible standards should be EPC E by 2020 and EPC D by 2025, to enable landlords to make home improvements and increase the EPC rating on a like-for-like base compared with properties connected to the gas grid.

A financial incentive for landlords should accompany these ambitious targets. Currently, landlords can claim up to £1,500 under the Landlords Energy Savings Allowance (LESA) against tax every year for the costs of buying and installing certain energy saving products for rented properties where Green Deal finance is not used. The LESA is due to expire in April 2015, but we believe that this incentive is still required. The average cost of upgrading an E, F or G rated property to a C rated property is £4,750, so we recommend an increased allowance of £4,750 for all landlords in order to match this cost, which should then be decreased to £3,000 after 2018 and to £1,500 after 2020. This phased approach would correspond with the interim targets, encouraging landlords to make improvements earlier and provide certainty for the connected supply chains.

4.

Government should make EPC data available to local authorities and housing providers at no charge to enable them to more cost-effectively target and deliver area-based energy efficiency improvement programmes.

Energy suppliers often find it difficult to identify low income households that are in need of energy efficiency improvements. They do not always have full access to the necessary data and can consequently spend significant amounts of money seeking out these homes. When they do find the right properties, their motives are also often distrusted by those who reside there.

To better and more cost-effectively target fuel poor households, greater use should be made of more trusted intermediaries, such as local authorities, housing providers and community organisations. These intermediaries should be given access to the necessary housing datasets, such as EPC data, free of charge to enable them to deliver energy efficiency improvements.

Individuals can look up an EPC online free of charge, but authorised organisations, such as local authorities and housing providers, must pay to access EPC data in bulk. This charge is prohibitive to local authorities and housing providers that are seeking to cost-effectively identify areas in their locality which have buildings with poor levels of energy efficiency. For example, based on a cost of up to 10 pence per EPC record, English local authorities and housing providers would be charged over £250,000 to access the EPC data for the 2.28 million fuel poor households in England.¹⁹ This fee is the equivalent to upgrading 50 fuel poor households to an EPC C rating through 'whole house' improvements, which on average cost £4,750. Local authorities and housing providers can use the EPC data to target, street by street, fuel poor households and deliver bespoke advice and home improvements for both rural and urban areas.

Local authorities and housing providers, working with Sir Michael Lyons' proposed national Housing Observatory,²⁰ should assess the effectiveness of actions to improve the energy performance of fuel poor households when upgrading an EPC D, E F or G rated property to an EPC C rated.

ResPublica's recently proposed Local Public Accounts Committees (LPACs)²¹ should assess the cost-effectiveness of local authorities and housing providers using EPC and other data sources available to target fuel poor households and deliver area-based energy efficiency home improvements.



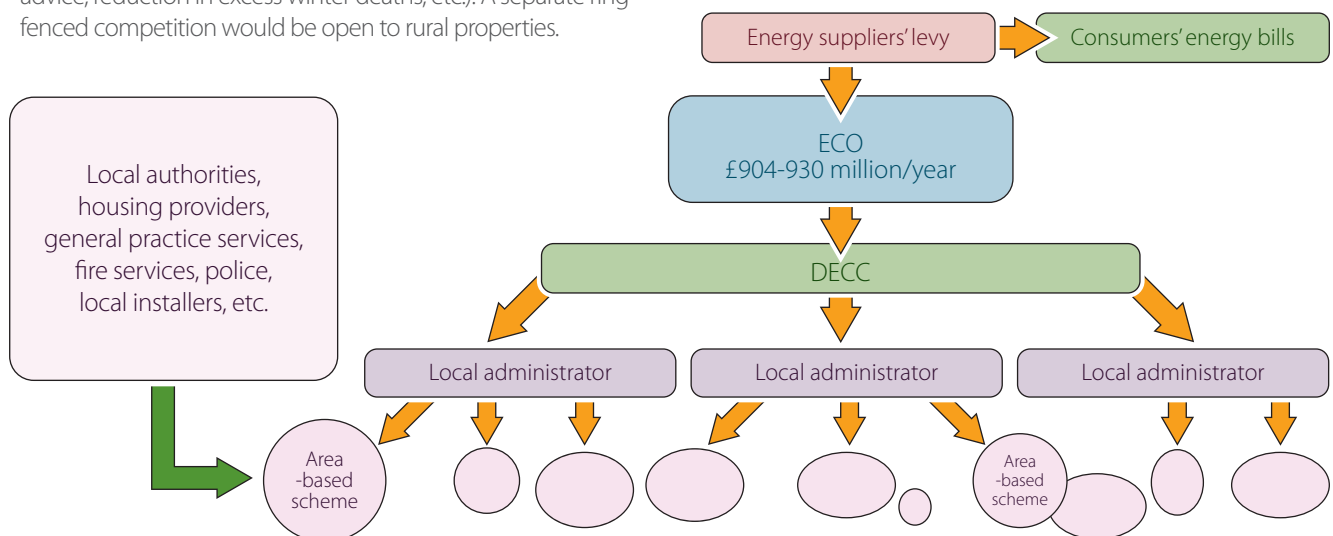
Deliver

5.

Government should pilot a new devolved delivery model for ECO within the next two years, with a view to rolling it out after April 2017. This should be managed by local administrators, which would facilitate an ECO competition for each locality, open to cities, local authorities and housing providers working with community and local organisations. A separate competition would target rural properties, which would be accompanied by a ring-fenced budget.

The Labour Party has proposed that instead of obliging energy companies to deliver the energy efficiency improvements themselves, they would create a central pot of money to fund local area-based energy efficiency programmes and invite local or regional organisations to apply for funding.²² We are proposing a more devolved, targeted and bespoke model of delivery model whereby:

- UK Government would allocate budgets from the central ECO pot to localities, based on a set of defined criteria such as number of fuel poor households and indices of deprivation. This would ensure that funding would be fairly apportioned around the country, based on communities most in need. A ring-fenced budget would be set aside for rural properties, which have been under-represented in previous programmes. This must be in addition to the new £25 million Central Heating Fund.
- Local organisations, such as the existing Local Enterprise Partnerships (LEPs), would facilitate and administer an ECO competition for each locality around a set of defined criteria. The criteria would be based on leveraged match funding from other sources, value for money against the number of fuel poor households to have measures installed and types of measures installed with priority given to cost-effective 'whole house' approaches for large areas. Consideration would be given to how to best to evaluate the improvements to households' energy efficiency, occupants' health and well-being and the integration of public services (e.g. more local jobs, fuel debt advice, reduction in excess winter deaths, etc.). A separate ring-fenced competition would be open to rural properties.
- Local authorities, housing providers, community and other non-profit organisations would apply for funding to deliver area-based energy efficiency programmes jointly with others, such as Clinical Commissioning Groups, emergency services and local supply chain businesses. Applicants would need to clearly define how they would target households for example by using EPC data or via partner referrals such as GPs, emergency services or tenancy change.
- ResPublica's recently proposed Local Public Accounts Committees (LPACs) would act as the body responsible for ensuring that the defined criteria are met and the local authorities and housing providers deliver best value for money.
- The LEPs, as local administrators, would record data on energy efficiency improvements to housing, in partnership with the proposed Housing Observatory²³ and with successful local authorities and delivery partners. This would ensure sharing of best practice and cost-effective targeting for future programmes.



This new delivery model should be launched in a phased approach. Initially, Government should establish pilots during 2015-2016 and once the appropriate criteria and administrating arrangements agreed, a full programme should be launched post April 2017 for running for at least five years.

Policy Recommendations



Fund

6.

City regions and local authorities should lead on integrating health and social care budgets with ECO budgets to fund local initiatives that tackle fuel poverty. Where cities and local authorities do not yet have this power, NHS Clinical Boards and Clinical Commissioning Groups (CCG) should lead on budgetary integration.

The proposed ECO delivery model could identify and tackle a range of problems: not only poor levels of energy efficiency in housing stock, but also the high level of debt and illness experienced by those who reside there. Current energy efficiency policies are usually oriented toward treating the property without regard for the person. This is completely out of sync with how our public services should work. We need not only a 'whole house' approach, but a 'whole person' approach too.

The devolved and more targeted delivery model proposed in this paper could ensure the installation of energy efficiency measures by a trusted local authority or housing provider is accompanied with advice on debt issues or the installation of smoke alarms. To get this 'whole house' and 'whole person' approach right, a number of different energy, emergency, health and community budgets should be integrated to deliver large-scale programmes street by street. Whole Place Community Budgets, which have been successfully piloted in recent years, can also be harnessed as a means to integrate energy efficiency measures across public services. We also envisage that city regions and local authorities will have much more power over public service budgets, in line with our proposals on city devolution, and will soon be in a position to integrate their public budgets to better target and deliver to the needs of the 'whole person' and the wider community.

As a first step, we recommend that city regions, local authorities or NHS Clinical Boards and CCGs, depending on who has the budgetary power, take a lead in ensuring that health and social care budgets are leveraged against ECO funding to fund local initiatives that tackle fuel poverty. Greater Manchester Combined Authority (GMCA) and its ten councils have recently negotiated budgetary power over its annual health and social care budgets. GMCA should therefore take the lead on this level of budgetary integration, and other cities should follow suit as they gain similar powers.

7.

Government and Local Enterprise Partnerships (LEPs) should ring-fence a proportion of the European Regional Development Fund (ERDF) and European Social Fund (ESF) LEP spend allocations for the remaining five years (2015-2020) for use as match funding against ECO allocations.

Government should designate energy efficiency as a national infrastructure priority and commit to developing a strategy for leveraging additional private investment and funds from Europe.

Previously, many English city regions received multimillion pound funding under the ERDF 2011-2014 and delivered large scale energy efficiency improvement programmes for social housing, using ECO's predecessors - CESP (Community Energy Saving Programme) and CERT (Carbon Emissions Reduction Target) - as match funding. This match funding was not an ECO subsidy; rather it ensured proposed local projects were doubled in size to achieve greater economies of scale and delivered a 'whole house' approach. Previously (2007-2013), DCLG administered the ERDF. However, in 2013, Government confirmed that England's allocation of the €6.2 billion of the next round of ERDF and ESF would be allocated to the LEPs. Each of the 39 LEPs have strategies on how to spend their ERDF and ESF allocations for the remaining five years. We recommend that LEPs revisit their strategies to investigate using their existing European funds (ERDF and ESF allocations) as potential leverage for ECO funding.



8.

Government should launch an independent review to explore whether the funding for ECO, currently levied on energy companies (and consequently added to all consumers' bills), should be transferred to general taxation. This review, to be led by the Office of Budget Responsibility and an independent fiscal watchdog, should consider the potential fiscal impact on fuel poor households, should this transfer take place. This must be explored within the context of wider outcomes: all expenditure on fuel poverty policies and subsidies, and their impact and cost-effectiveness to date, should also be assessed.

The current mechanism – which places an obligation on energy companies to target and deliver energy efficiency improvements to fuel poor households – is inadequate. The level of funding is not enough, it places a burden on energy suppliers and it adds costs to consumers' energy bills, including the fuel poor.²⁴ ECO and the Warm Home Discount added an average cost of £49 to the annual household energy bill in 2014. As it currently stands, this way of funding such measures could both penalise the poor and be bad for business.

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2.

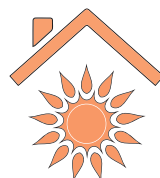
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