

An end to cold homes:  
One Nation Labour's  
plans for energy efficiency



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## FOREWORD



Rarely does one issue capture the values of a nation. This Green Paper not only describes the kind of Britain we believe in, it describes one we can achieve. A Britain in which we bring an end to cold homes.

Our country needs more than warm words. It needs a plan for warm homes. A plan which creates new jobs and opportunities for apprentices. A plan which moves towards a fairer Britain, where all homes can reach a standard of comfort, and where those with the least do not pay ever-rising sums to heat their homes.

This journey reduces bills, reduces fuel poverty and by creating warmer, more efficient homes, it improves health and wellbeing for millions of British people. But this journey is not just for a few, and not just for those with limited means. The range of initiatives we describe offer something for everyone. For the hardworking family and for the struggling pensioner.

In this vision of Britain, no one is left in the cold. We make demands of landlords, we challenge energy companies to raise their game and we insist on public money delivering value for you, the taxpayer. We do right by our planet, and we show that social justice goes hand in hand with enterprise and creating new jobs, in a more modern Britain.

This is part of Labour's plan for Britain's future. A Britain of warm homes, and warm hearts. A Britain we can all believe in.

**RT HON CAROLINE FLINT MP**

## EXECUTIVE SUMMARY

At Labour Party Conference last year we announced that the next Labour Government will freeze energy prices until 2017 and undertake the biggest reform of our energy market since privatisation. We believe these reforms will improve transparency, competition and, importantly, consumers' trust in the energy market. In order to deliver long-term, permanent savings on energy bills, and to protect households and businesses from future price rises, it is vital that we improve the energy efficiency of our building stock too.

Despite the progress made under the previous Labour Government, in particular through the Decent Homes programme for social housing, which resulted in the installation of 700,000 new kitchens, 525,000 new bathrooms, over 1 million new central heating systems and the re-wiring of 740,000 homes, and Warm Front, which helped over 2 million households improve their energy efficiency and insulation, Britain has among the least energy efficient housing stock anywhere in Europe. Poor energy efficiency is the single biggest reason why so many households are in fuel poverty. A household in the least energy efficient home is currently paying, on average, £965 a year more and is five times more likely to be in fuel poverty than a household with average levels of energy efficiency.

It is clear that the policies of the current Government do not meet the scale of this challenge. Just 2,581 households have had measures installed under the Green Deal since its launch nearly two years ago, and the Energy Company Obligation has resulted in a significant fall in the installation of energy efficiency improvements and will leave nine out of ten fuel poor households in fuel poverty.

Improving energy efficiency is crucial not just for homes, but also for non-domestic buildings such as commercial offices, factories, schools and hospitals. Energy efficiency can cut costs for businesses and the public sector, insulate them from future energy price rises and boost UK competitiveness.

This Green Paper proposes a fundamental overhaul of the country's approach to energy efficiency. Learning the lessons of previous energy efficiency programmes, it proposes an ambitious, long-term programme to end the scandal of cold homes and lift and protect people from fuel poverty, support millions of households and businesses to improve their energy efficiency and establish energy efficiency as a national infrastructure priority. We intend to take six key actions to achieve this:

### Labour's policies

1. Provide half a million personalised home energy reports a year, detailing how households could save money on their energy bills through insulation and energy efficiency.
2. Free energy efficient improvements for 200,000 households in or at risk of fuel poverty a year, with an ambition to upgrade all such homes and end the scandal of cold homes within 15 years, saving the average household over £270 a year.
3. Interest free loans to cover the costs of energy efficiency improvements for up to one million households during the next Parliament.
4. A new target to upgrade properties in the private rented sector to a minimum of an Energy Performance Certificate (EPC) C by 2027.
5. Energy efficiency designated as a national infrastructure priority under Labour's proposed National Infrastructure Commission.
6. Streamlined regulations and a long-term strategy to support investment in energy efficiency in non-domestic buildings.

## 1. ENERGY EFFICIENCY: THE CASE FOR CHANGE

### Residential

#### Why energy efficiency matters

1.1 The energy efficiency of a home is a key determinant of how much is required to be spent on its energy bills, and its likelihood of being in fuel poverty. Households with poor levels of energy efficiency and insulation need to spend more on energy to keep their homes warm. This leaves them with higher energy bills, higher rates of fuel poverty and more exposed to future price rises.

1.2 The energy efficiency of Britain's housing stock has improved in the last ten years. However it is still among the worst anywhere in Europe. This is principally because our homes are, on average, much older than those found on the continent. At present, nearly 60 per cent of the UK's housing stock is more than 50 years old and, of this, 80 per cent will still be standing by 2050, meaning that upgrading these properties is essential to improving energy efficiency.<sup>1</sup> According to the Committee on Climate Change, 4.5 million cavity walls remain 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.<sup>2</sup> Additionally, approximately 8 million households have no thermostat.<sup>3</sup>

#### Poor energy efficiency means households end up with higher energy bills

1.3 According to Ofgem's latest estimate, the average household's annual energy bill is now over £1,300<sup>4</sup> and energy bills have increased sharply in the last four years. According to analysis from the House of Commons library, based on figures from the Department for Energy and Climate Change, household energy bills rose by 21per cent in real terms between 2010 and 2013, meaning household energy bills were £221 a year higher in 2013 compared to 2010. This increase is twice as fast as inflation, four times faster than wages and faster than almost anywhere else in the developed world.<sup>5</sup>

#### How is energy efficiency calculated?

The Energy Performance Certificate (EPC) provides a rating for a property's energy efficiency. Ratings come on a scale of A-G, with A being the best rating and G the worst. The performance of a property is rated in terms of the energy used per square metre of floor area.

<sup>1</sup> University of Oxford's Environmental Change Institute, *Home Truths: A low-carbon strategy to reduce UK housing emissions by 80% by 2050*, (2007).

<sup>2</sup> Committee on Climate Change, *Meeting Carbon Budgets – 2014 Progress Report to Parliament*, (2014): 163-163.

<sup>3</sup> Department for Energy and Climate Change, *Smarter heating controls research programme*, (2012).

<sup>4</sup> Ofgem, *Supply Market Indicator*, (October 2014).

<sup>5</sup> Information provided to the Rt Hon Caroline Flint MP from the House of Commons library, August 2014.

1.4 Less energy efficient properties have much higher energy bills. As table 1 shows, households with the worst energy efficiency rating (bands F or G) pay, on average, £965 a year more than households with average levels of energy efficiency (band D), and their bills are more than double those of households living in the most energy efficient properties (bands A, B, or C).

**Table 1 Comparison of energy bills between homes with different levels of energy efficiency<sup>6</sup>**

Energy efficiency rating	Average annual energy bill
A/B/C	£917
D (average)	£1,188
E	£1,544
F/G (worst)	£2,153
<b>Difference between D and F/G</b>	<b>£965</b>

1.5 However, even in countries which do have higher end-user prices than the UK, households often have lower energy bills, as their housing stock has higher levels of energy efficiency, meaning fewer units of energy are required. As table 2 shows, even though consumers in Sweden face much colder winters and higher prices, their energy bills are lower, fewer people face difficulty in paying their energy bills and levels of excess winter deaths are lower:

**Table 2 Comparison between UK and Sweden<sup>7</sup>**

Variable	UK	Sweden
Price per unit of most common type of heating (p/kwh)	5.6	9
Real adjusted gross disposable income of households per capita (£)	18,900	19,000
January temperature range (°C)	2 to 6	-5 to -1
Proportion unable to heat their homes adequately (%)	15.9	8.4

### Households living in the least energy efficiency properties are five times more likely to be in fuel poverty

1.6 In 2013, following the Hills Review into Fuel Poverty, the Government adopted a new definition of fuel poverty. This measure, known as the Low Income High Costs definition, defined a household as being in fuel poverty if they have above-average energy costs, which, were they to spend that amount, they would be left below the poverty line.

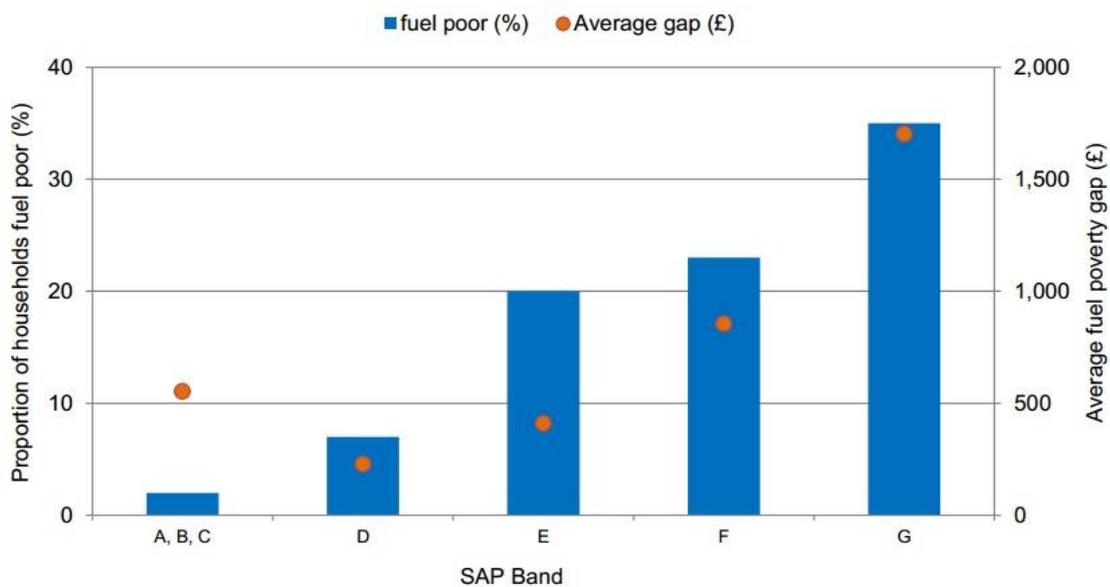
<sup>6</sup>Department for Energy and Climate Change, *Annual Fuel Poverty Statistics*, (2014): Table 3.2, 30.

<sup>7</sup> Association for the Conservation of Energy, *Energy efficiency and excess winter deaths: Comparing the UK and Sweden*, (2013): Table 1, 2.

1.7 By this definition, in 2012 there were 2.28 million households in England in fuel poverty – representing just over 10 per cent of all households. On the latest forecasts for 2014, the number of households in fuel poverty is forecast to increase to 2.33m. Fuel poverty is a devolved issue, and the Scottish and Welsh administrations have their own definitions of fuel poverty. Both currently use the 10per cent definition, whereby a household is considered to be in fuel poverty if they are required to spend more than 10per cent of their income to keep their home to a satisfactory standard. On this definition, there were 650,000 households in Scotland in fuel poverty in 2012, and 390,000 households in Wales in fuel poverty.<sup>8</sup>

1.8 As chart 1 shows, the likelihood of a household being in fuel poverty is closely linked to the property’s energy efficiency. Almost two-thirds of households in fuel poverty live in the least energy efficient properties (bands, E, F or G), even though these properties only account for less than one-third of the housing stock. Households living in the least efficient properties (band G) are five times more likely to be in fuel poverty than households living in properties with average levels of energy efficiency (band D).<sup>9</sup>

**Chart 1 Fuel poverty and average fuel poverty gap by SAP rating bands, 2012**



1.9 In addition, households with the worst energy efficiency suffer much deeper levels of fuel poverty. As table 3 shows, the average fuel poverty gap (the difference between their energy bill and what they can afford) for a household in the worst-rated properties (band G) is seven times higher than that of households in average-rated properties (band D). Households living in the least energy efficient properties (bands, E, F or G), also account for over 76 per cent of the fuel poverty gap, despite only making up approximately 30 per cent of the housing stock.<sup>10</sup>

<sup>8</sup> Department for Energy and Climate Change, *Annual Fuel Poverty Statistics*, (2014): Table 7.1, 62

<sup>9</sup> Department for Energy and Climate Change, *Annual Fuel Poverty Statistics*, (2014): 31.

<sup>10</sup> Department for Energy and Climate Change, *Fuel Poverty under the low income high costs AHC equivalised income definition by SAP band*, (2014): Table 22.

**Table 3 Comparison of fuel poverty gap by EPC rating bands, 2012**<sup>11</sup>

Energy efficiency rating	Fuel poverty gap
D (average)	£228
G (worst)	£1,702
<b>Difference between D and G</b>	<b>£1,474</b>

1.10 Energy efficiency standards in the private rented sector tend to be worse than other tenure types, and significantly worse than households in social housing, resulting in higher levels of fuel poverty. The private rented sector also has the highest proportion of the very worst insulated homes (EPC F and G), and a higher proportion of properties classified as a category 1 'excess cold' hazard under the Housing Health and Safety Rating System (HHSRS).<sup>12</sup> 19 per cent of households in the private rented sector are in fuel poverty, compared to 9-10 per cent for households in social housing and 8 per cent for owner-occupied households. The fuel poverty gap for fuel poor households in the private rented sector is also substantially worse than for households in social housing. In 2012, the average fuel poverty gap for a fuel poor private rented household was £445, compared to £218 for households in social housing.<sup>13</sup>

**Table 4 Comparison of energy efficiency standards and fuel poverty by tenure England, 2012**<sup>14</sup>

Tenure	Proportion of households in fuel poverty (%)
Private rented sector	19
Owner occupier	8
Social housing	9

### Improved energy efficiency can result in immediate savings for households

1.11 Improved energy efficiency can result in immediate bill savings for households - up to £140 for cavity wall insulation, up to £205 for loft insulation, and up to £310 for an efficient boiler. In addition, by permanently reducing the amount of energy a household uses, energy efficiency insulates households from future price increases, reducing the impact of future rises in energy unit prices on overall bills.

<sup>11</sup> Table 3.2, page 30, Annual Fuel Poverty Statistics, 2014

<sup>12</sup> Department for Energy and Climate Change, *Private Rented Sector Energy Efficiency (Domestic) (England and Wales)*, (2014): 21-24.

<sup>13</sup> Department for Energy and Climate Change, *Fuel Poverty under the low income high costs AHC equivalised income definition by tenure*, (2014): Table 3.

<sup>14</sup> Department for Energy and Climate Change, *Annual Fuel Poverty Statistics*, (2014): Table 3.2, page 30,

### Improving energy efficiency is important for reducing carbon emissions

1.12 The UK must achieve legislated carbon emission reduction targets of 80 per cent on 1990 levels by 2050. The building sector accounts for 37 per cent of total UK greenhouse gas emissions. The residential sector accounts for 65 per cent of these emissions, compared to 26 per cent for the commercial sector and 10 per cent for the public sector.<sup>15</sup>

### Improving energy efficiency will generate returns for the economy

1.13 The energy efficiency sector in the UK accounts for approximately 136,000 jobs and total sales of around £17.6bn. An economic study of the sector from 2000 to 2007 showed that the Government's energy efficiency policies increased the annual rate of GDP by 0.1 per cent.<sup>16</sup>

1.14 IPPR suggest that spending on products and services other than energy will produce higher VAT revenues for government than the equivalent amount of spending on energy. This is because VAT on energy is 5 per cent, while VAT on most items is 20 per cent. Since many energy suppliers are foreign-owned, it is likely that shifting spending away from energy and onto other products and services will mean that more of the profits from that spending remain in the UK. This will produce a long-run boost to GDP.<sup>17</sup>

## Commercial and public sectors

### Why energy efficiency matters

1.15 Improving energy efficiency is crucial not just for homes, but also for non-domestic buildings such as commercial offices, factories, schools and hospitals.<sup>18</sup> Non-domestic buildings are key to decarbonising the UK, accounting for over a third of buildings emissions, and around 13 per cent of the UK's greenhouse gas emissions overall.<sup>19</sup>

1.16 Energy efficiency also presents a major opportunity for UK businesses. Improvements can cut costs for businesses, estimated at £1.6 billion by the CBI, and insulate them from future energy price rises, boosting UK competitiveness. The public sector also has a crucial role to play, providing leadership in the deployment of energy efficiency technologies and jobs, and saving money for the taxpayer.

1.17 Yet despite these opportunities, and despite many organisations already making serious efforts to cut their energy use, non-domestic buildings emissions overall have remained broadly flat in recent years.<sup>20</sup>

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<sup>15</sup> Committee on Climate Change, *Meeting Carbon Budgets – 2014 Progress Report to Parliament*, (2014): 155.

<sup>16</sup> CBI, *Maximising the potential of green business*, (2014).

<sup>17</sup> IPPR, *Help to Heat: A solution to the affordability crisis in energy*, (2013): 12.

<sup>18</sup> The scope of this green paper does not include fiscal levers such as carbon price instruments, although these form an important tool in supporting energy efficiency in some sectors.

<sup>19</sup> Committee on Climate Change, *Meeting Carbon Budgets: 2014 Progress Report to Parliament*, (2014).

<sup>20</sup> Ibid.

1.18 This reflect barriers such as awareness and complexity. Surveys have consistently found poor levels of awareness of the benefits of energy efficiency across many businesses, compounded by overly-complex and overlapping information requirements<sup>21</sup>. Furthermore, for the two-thirds of commercial property that is rented, incentives can be misaligned, with landlords reluctant or unable to make energy efficiency investments for which the tenant, as the main bill payer, will be the main beneficiary.<sup>22</sup>

1.19 Finance is a further barrier for many businesses, where investment in energy efficiency measures has to compete with other strategic priorities, often with lower upfront capital and shorter payback periods. For small and medium enterprises (SMEs) in particular, this is compounded by difficulties in raising finance.

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<sup>21</sup> CBI, *Shining a light: Uncovering the business energy efficiency opportunity*, (2013) & Carbon Trust, *The Business of Energy Efficiency*, (2010).

<sup>22</sup> British Property Federation, *Property Data Report*, (2013).

## 2. LEARNING FROM PREVIOUS ENERGY EFFICIENCY POLICIES

### Residential

#### Warm Front

2.1 Significant progress was made under the previous Labour Government in improving the energy efficiency of our housing stock. The Warm Front scheme was introduced in 2000 and ended in January 2013. It provided government-funded grants for heating and insulation improvements to over 2.3 million households. In his review of fuel poverty, Professor John Hills identified a number of factors which made the policy an effective tool for tackling fuel poverty:

- It prioritised the most cost-effective measures – primarily low-cost insulation and gas heating systems.
- It was targeted at households that were both low-income and had low levels of energy efficiency – in order to be eligible, households had to be in receipt of certain income-related benefits and living in poorly-insulated properties or properties without a working central heating system.<sup>23</sup>

2.2 Notwithstanding this, in its review of Warm Front, the National Audit Office made some criticisms of the proxies used to target fuel poor households, which it argued were inefficient and led to too many households receiving assistance when they did not need it.<sup>24</sup>

#### Obligations on energy companies

2.3 The Warm Front scheme was complemented by a number of obligations on energy suppliers to deliver energy efficiency improvements. In these schemes, the Government is responsible for designing the target and setting the level of obligation; energy companies are responsible for discharging it and then recoup the costs via consumers' bills. Failure to meet these targets can result in a fine.<sup>25</sup> We believe there are a number of important lessons to be learnt from these schemes:

- Energy companies often found it difficult to find the households entitled to support, as they did not always have full access to the necessary data. As a result, companies had to spend significant amounts of money just to find the right households – in one case a supplier was forced to pay people £50 to find *other* people to receive *free* energy efficiency measures.<sup>26</sup>

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<sup>23</sup> Hills Fuel Poverty Review, *Getting the measure of fuel poverty*, (2012): 105.

<sup>24</sup> National Audit Office, *The Warm Front Scheme*, (2009).

<sup>25</sup> The Energy Efficiency Standards of Performance (EESoP) ran from 1994 to 2002. This was followed by the Energy Efficiency Commitment (EEC) which ran from 2002 to 2008, and then the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP).

<sup>26</sup> "British Gas to give you £50 to refer 'vulnerable' people for free insulation," *ThisisMoney.co.uk*, February 23, 2012.

## 14 One Nation Labour's plans for energy efficiency

- Not all companies have been able to meet their targets. 6 companies, for example, failed to meet their obligations under CERT or CESP.<sup>27</sup>
- Energy companies were not required to submit detailed information on the costs of delivering their obligations, making it difficult to monitor how cost-effectively the obligations were discharged, or how these costs were recovered from consumers.
- The schemes have been too short, meaning companies have not always had enough time to develop supply chains or properly identify the most cost-effective way of meeting their obligations. Companies have also tended to be slow, with large volumes of measures only installed at the end of schemes, leading to cost inflation.
- Putting obligations on the big energy companies has made it harder for smaller firms to access the energy efficiency market. These firms may have had greater local knowledge or been able to inject greater competition into the market.

2.4 In 2013 the current Government replaced these schemes with the Energy Company Obligation (ECO). The scheme was initially planned to run from January 2013 to March 2013 and was estimated to cost suppliers approximately £1.3 billion a year, although estimates later suggested the cost was closer to £1.4 billion. The scheme consisted of three distinct obligations on energy suppliers:

- The Carbon Emissions Reductions Obligation target (CERO) – a target to reduce carbon emissions via the installation of cavity wall and solid wall insulation in hard-to-treat properties, available to all households, representing approximately £760 million or nearly 60 per cent of planned expenditure.
- The Carbon Savings Communities Obligation target (CSCO) – a target to reduce carbon emissions via the installation of insulation measures to low income areas, representing £190 million or nearly 15 per cent of planned expenditure.
- The Affordable Warmth target (AW) – a target to reduce heating costs through insulation of heating technologies, available to households on certain benefits, representing £350 million or nearly 27 per cent of planned expenditure.

2.5 Just 11 months after the scheme started, the Government made a number of changes to ECO, reducing the number of households expected to receive assistance by 440,000 and reducing available funding from £1.3 billion to approximately £905 - £940 million. This scheme now runs until March 2017. We believe there are a number of problems with ECO in both its forms:

- The scheme is extremely complicated to implement and difficult to administer, consisting of three sub-targets, with different measures and different eligibility.
- The scheme poorly targets fuel poverty. In the first version of ECO, over 60 per cent of the total support was available to households irrespective of their income. Following the

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<sup>27</sup> Ofgem, *Investigations*, last updated October 2014

changes announced last year, approximately 40 per cent of available funding is still available to households which are neither low-income, nor living in fuel poverty.

- Of the support that is allocated to those most in need of assistance, the proxies used for targeting fuel poor households are inefficient. Research from IPPR suggests that 80 per cent of the funding allocated to low-income households or households living in deprived areas may be going to non-fuel poor households, and that over 50 per cent of fuel poor households may not meet the eligibility criteria to qualify for assistance.<sup>28</sup>

## The Green Deal

2.6 Alongside the Energy Company Obligation, the Government has introduced a pay-as-you-save energy efficiency scheme, known as the Green Deal. Pilots for such a scheme started under the last Labour Government and all three parties went into the last election committed to the principle of pay-as-you-save, whereby loans are made available to households for energy efficiency improvements, and the repayment costs are deducted from the energy bills; in theory, the savings from the improved energy efficiency are meant to offset the cost of repaying the loan.

2.7 Despite being billed as the biggest home improvements programme since World War 2, take-up levels under the Green Deal have been significantly lower than what was predicted. By the end of September 2014, just 2,581 households had had energy efficiency measures installed, while a further 1,347 had agreed and signed for a Green Deal package.<sup>29</sup>

2.8 The disappointing uptake of the Green Deal cannot simply be attributed to a lack of interest or awareness. Over 355,000 households have had Green Deal assessments.<sup>30</sup> However, less than 4,000 of these have gone on to take out a Green Deal, suggesting that approximately 99 per cent of people decided it was not an attractive financial proposition. We believe the main reason the level of take-up of the Green Deal has been so low is because the current interest rate is too high:

- A survey by the Great British Refurb campaign found that just 7 per cent of people were likely to take out a Green Deal package if the interest rate was 6 per cent or higher.<sup>31</sup>
- Research has suggested that savings from energy bills are the single biggest motivating factor for households interested in taking out a Green Deal.<sup>32</sup> However, with interest rates of 7 per cent or higher, the savings from improved levels of energy efficiency are almost entirely off-set by the interest payments on the loan, meaning households see little, if any, financial benefit while the loan is being repaid.

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<sup>28</sup> IPPR, *Help to Heat: A solution to the affordability crisis in energy*, (2013): 38.

<sup>29</sup> Department for Energy and Climate Change, *Green Deal and Energy Company Obligation (ECO): monthly statistics*, (October 2014): 5.

<sup>30</sup> Department for Energy and Climate Change, *Green Deal and Energy Company Obligation (ECO): monthly statistics*, (October 2014): 5.

<sup>31</sup> Great British Refurb, *Green Deal— Public Appetite Market Research*, (2010).

<sup>32</sup> Department for Energy and Climate Change, *Research Report: Consumer Needs and Wants for the Green Deal*, (2011).

- The Government has suggested that the Green Deal's interest rates are competitive when compared against other similar forms of unsecured credit. But this compares energy efficiency with home improvements for which there is already well-established demand, such as a new kitchen or bathroom.

2.9 The Government has claimed that many households who receive assessments are going on to install energy efficiency measures themselves with alternative sources of funding. However, research commissioned by the Government suggests that in fact the vast majority of those measures have been installed for free by energy companies under ECO, which undermines the suggestion that the majority of people who get a Green Deal assessment go on to install at least one measure with other funding.<sup>33</sup> In any case, if the Government's intention was just to provide energy efficiency assessments, it begs the question of why they bothered to create the Green Deal and establish the Green Deal Finance Company in the first place.

### The Green Deal Home Improvements Fund

2.10 In December 2013, the Government allocated £150 million of its three-year £450 million budget for domestic energy efficiency to the Green Deal Home Improvements Fund (GDHIF), which provides cashback to households that undertake energy efficiency improvements. Households that undertake two or more energy saving measures are eligible to receive cash back to cover the majority of the costs of energy efficiency improvements. Importantly, households do not need to take out a Green Deal package to be eligible; indeed, if they are receiving cashback to cover all or most of the costs, there is likely to be little need for an additional Green Deal loan.

2.11 The fund for 2014-15 opened on 9 June 2014. Just six weeks later, however, the fund closed to new applicants on 24 July 2014. This sudden closure was a serious setback for the energy efficiency industry which had geared up to deliver improvements, and to large numbers of consumers who had planned or even begun improvements.

2.12 We do not believe this is the most effective or most equitable way to spend public money on energy efficiency because:

- There is no assessment of a household's ability to pay or their need for energy efficiency improvements, meaning that funding may go to households who could afford to do the work themselves, and that households with greater need or less access to finance may miss out on assistance.
- The scheme incentivises expensive forms of energy efficiency, and with such high levels of cashback, the ratio of Government support to private investment is high, compared to other means of supporting energy efficiency.

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<sup>33</sup> Department for Energy and Climate Change, *Green Deal Assessment Customer Research*, (2014): 3.

## Commercial and Public Sectors

2.13 Around 60 per cent of today's non-domestic buildings are expected still to be in use in 2050.<sup>34</sup> Critical to encouraging investment in their energy efficiency is a clear and consistent policy framework by government. Yet government policy has failed to seriously tackle these barriers, with complex reporting requirements, a regulatory regime that is uncertain and unpredictable, and difficulties for many businesses in accessing finance for energy efficiency measures.<sup>35</sup>

### Reporting requirements

2.14 The accurate measurement and benchmarking of energy consumption is essential to inform investment decisions and improve performance across non-domestic buildings. However, currently, many businesses and public sector organisations are required to respond to multiple and often overlapping information requirements on their energy use, which is administratively complex and provides uneven incentives.

2.15 For example, current requirements include:

- Energy Performance Certificates.
- Display Energy Certificates, which rate buildings on operational energy consumption in contrast to EPCs, and currently, are required in all public buildings over 500m<sup>2</sup>.
- Energy Audits under the Energy Savings Obligation Scheme (ESOS), which apply to all large enterprises and from next year will identify cost-effective energy efficiency measures.
- Carbon Reduction Commitment Energy Efficiency Scheme, which since 2010 has required large electricity and gas consumers to annually report their usage.
- Greenhouse gas emissions reporting, which since October 2013 has been mandatory for all companies listed on the London Stock Exchange.
- Non-domestic smart metering from 2020.

2.16 This overlap reflects a broader failure by Government to join up energy efficiency policy and to work closely with business in the design and deployment of these measures. These measures also overlap with other policies, including building regulations, minimum buildings standards and carbon price instruments.

### Regulatory uncertainty

2.17 As well its complexity, the current framework fails to provide many businesses with the long-term certainty that their investment cycles require. For example, minimum energy performance standards provide a powerful signal to improve the worst-performing

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<sup>34</sup> Carbon Trust, *Building the Future Today*, 2010.

<sup>35</sup> For example, see Committee on Climate Change, *Meeting Carbon Budgets: 2014 Progress Report to Parliament*, (2014).

buildings. The Energy Act 2011 requires all eligible properties in the non-domestic sector to be improved to a specified minimum standard by 1 April 2018, and leased commercial properties in England and Wales are expected to be required to meet EPC E from 2018. However, the Government has been slow to confirm its intentions or set out further detail, with a response to its recent consultation on the question not expected until early next year.<sup>36</sup> Importantly, there has so far been little indication from government on the pace and scale for further improvements beyond 2018, making it difficult for businesses – who often work to much longer investment and planning cycles – to plan appropriately.

2.18. A recent survey by the CBI underlined this, showing only 5 per cent of businesses considered that the Government's current policy framework is effective in encouraging investment in energy efficiency, and that nearly 90 per cent were mixed or negative when asked about how government works with business to improve energy efficiency.<sup>37</sup>

### Financing energy efficiency

2.19 Rates of return on energy efficiency investments often compare favourably to other investments, but these are often undermined by factors such as long payback periods, high upfront capital and crowding out of more immediate, strategic priorities.<sup>38</sup> For many businesses, and SMEs in particular, this is made worse by difficulties in accessing finance. For example, one survey reported that 60 per cent of SMEs have not got the cash resources to invest in energy efficiency, despite considering it to be of high importance.<sup>39</sup>

2.20 To address this, the Government's flagship Green Deal was launched for non-domestic customers in January 2013. Under a pay-to-save model piloted under the previous Government, it offers upfront funding for energy efficiency measures repaid through energy bills. However, under the current model, interest rates remain high; finance of up to 25 years is fixed to an address (against an average lease of less than 5 years for the 60 per cent of commercial space that is rented); and the scheme has been poorly targeted, with business awareness remaining low.<sup>40</sup> As a result, despite promises by the Government of the long-term potential of the scheme, not a single non-domestic plan has been delivered through the Green Deal over 18 months, and only 63 assessments have so far been made.<sup>41</sup>

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<sup>36</sup> Department of Energy and Climate Change, *Private Rented Sector Minimum Energy Efficiency Standard Regulations (Non-Domestic) (England and Wales)*, (2014).

<sup>37</sup> CBI, *Shining a light: Uncovering the business energy efficiency opportunity*, (2013).

<sup>38</sup> Westminster Sustainable Business Forum and Carbon Connect, *Building Efficiency: Reducing energy demand in the commercial sector*, (2013).

<sup>39</sup> nPower, *Business Energy Index 2013*, (2013).

<sup>40</sup> One study reported only 11 per cent of occupiers were aware of the non-domestic Green Deal. Westminster Sustainable Business Forum and Carbon Connect, *Building Efficiency: Reducing energy demand in the commercial sector*, (2013).

<sup>41</sup> Information provided to the Rt Hon Caroline Flint MP in a written parliamentary question, HC Deb, 22 July 2014, c1125W.

### 3. LABOUR'S POLICIES: RESIDENTIAL

**Our goal is to reduce people's energy bills and make their homes warmer, by improving the energy efficiency of our housing stock, starting with people in fuel poverty but supporting millions more. Our approach will be guided by three key principles:**

- Energy efficiency is not free – it has to be paid for, including by those in fuel poverty themselves. We therefore believe that support should go to those most in need and to the most cost-effective measures.
- The scale of the challenge extends the lifetime of any single government. We therefore propose a long-term policy framework, which ends the stop-go cycle of energy efficiency programmes we have seen in the past, and for which we hope to secure cross-party consensus.
- We believe that energy efficiency should be decentralised and delivered locally by trusted organisations.

#### **Policies: Residential**

1. Provide half a million personalised home energy reports a year, detailing how households could save money on their energy bills through insulation and energy efficiency.
2. Free energy efficient improvements for 200, 000 households in or at risk of fuel poverty a year, with an ambition to upgrade all such homes and end the scandal of cold homes within 15 years, saving the average household over £270 a year.
3. Interest free loans to cover the costs of energy efficiency improvements for up to one million households during the next Parliament.
4. A new target to upgrade properties in the private rented sector to a minimum of an Energy Performance Certificate (EPC) C 2027.
5. Energy efficiency designated as a national infrastructure priority under Labour's proposed National Infrastructure Commission.

### Free personalised home energy reports

We will provide free personalised home energy reports to half a million households a year, reaching every home in Britain within 10 years.

3.1 The single biggest obstacle to the uptake of energy efficiency is the lack of demand. For example, a survey by the UK Energy Research Centre found that just 10 per cent of households renovating their homes consider improving energy efficiency and suggested that efficiency renovations are perceived as less salient or urgent than other home improvements.<sup>42</sup>

3.2 In addition, 2 in 3 households have never had an energy efficiency assessment or an EPC, meaning they do not know how energy efficient their home is, or the savings that could be made from energy efficiency improvements.<sup>43</sup>

3.3 The only area in which the Green Deal has had any success is in the provision of energy efficiency assessments. Between January 2013 and May 2014, nearly a quarter of a million households received Green Deal assessments. However, approximately 90 per cent of those assessments have been provided for free and funded by government.<sup>44</sup> Consumer research on the Green Deal shows that after saving money on energy bills, the offer of free assessment is the second most important motivation for having an assessment. We believe that the high upfront cost of an energy efficiency assessment – estimated to be £157, on average<sup>45</sup> – is likely to be a significant barrier to the uptake of energy efficiency improvements.

3.4 In order to drive demand for energy efficiency improvements and to accurately identify fuel poor households to receive measures for free, we will provide free personalised home energy reports to half a million households a year. These would contain personalised information for households with information on the energy efficiency of their property, options for home improvements and information about funding, including eligibility for free measures.

3.5 Based on the Government's current estimate of the cost of an energy efficiency assessment we estimate that the cost of providing half a million free personalised home energy reports a year will be approximately £80 million. We propose that this is paid for out of the existing budget of £940 million funded through the Energy Company Obligation in Great Britain.

3.6 There are a number of ways in which these reports could be delivered. The funding for them could be provided to local authorities or other local energy efficiency delivery agencies and be incorporated into the delivery of energy efficiency measures. Alternatively, funding could be provided directly from government to households to cover the costs of an energy

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<sup>42</sup> UK Energy Research Centre, *Understanding Homeowners' Renovation Decisions: Findings of the VERD Project*, (2013): 8.

<sup>43</sup> *Ibid.*, 10.

<sup>44</sup> Department for Energy and Climate Change, *Green Deal Assessment Customer Research*, (2014): 15.

<sup>45</sup> Information provided to the Rt Hon Caroline Flint MP in a written parliamentary question, HC Deb, 9 July 2014, c304W.

efficiency assessment, in the form of cashback. These could be delivered by Green Deal assessors.

**Question 1:** Do you think that other incentives, measures or publicity will be needed in order to raise awareness about potential savings from energy efficiency improvements?

**Question 2:** Do you think that any changes need to be made to the content, format or process by which Green Deal assessments are currently provided?

**Question 3:** Do you think that personalised home energy reports would be better provided by local energy efficiency providers or directly from central Government to individual households?

### **Targeted support for households in or at risk of fuel poverty.**

We will upgrade the energy efficiency of 200,000 fuel poor households a year, with an ambition to eradicate cold homes within 15 years.

3.7 There is currently an obligation on energy companies in Great Britain to deliver energy efficiency improvements. This is known as the Energy Company Obligation (ECO). Companies recoup the costs via consumers' bills. The annual budget is currently estimated to be between £905 and £940 million a year.<sup>46</sup>

3.8 The current ECO scheme began in January 2013 and, following changes to the scheme in December 2013, will run until March 2017. Although we believe that ECO is inefficient and poorly designed, we believe that the costs associated with changing the existing scheme will outweigh the potential benefits of moving to a new scheme before March 2017. We are also mindful of the significant disruption that has been caused by sudden changes to energy efficiency policy. Subject to a review in Government, we therefore propose that the existing ECO be allowed to run its course, before our new scheme comes into effect.

3.9 We propose to maintain the levy at its current level, meaning that our proposals will not involve any additional cost to consumers or require any additional funding. However, we propose a number of significant changes to the existing structure and delivery of energy efficiency improvements:

- After allowing for free home energy assessments, the full budget should be spent on home improvements for low-income households living in poorly insulated properties, who are in or most at risk of fuel poverty.
- The scheme should be delivered by a street-by-street programme, with local authorities taking a leading role.
- Each property should receive a 'whole house' energy efficiency retrofit, to upgrade to an EPC C, which is more efficient than the current single measure approach. The average cost of upgrading a low-income high-costs property to EPC C is estimated to be £4,750,

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<sup>46</sup> Department for Energy and Climate Change, The Future of the Energy Company Obligation: Assessment of Impact, (2014): 24.

with a £10,000 cap on any individual property, according to research by the Association for the Conservation of Energy.<sup>47</sup> Households' energy bills will be on average £270 a year less.

**Question 4:** How can we best manage the transition from the existing energy efficiency framework to the policies proposed in this Green Paper, in order to minimise disruption to consumers and industry?

3.10 We believe that support should go to those most in need and on the most cost-effective measures. We therefore propose that all funding raised through the Energy Company Obligation should be targeted at low-income households who live in poorly insulated properties and have high energy costs and who are, therefore, in or at risk of fuel poverty.

#### Who are the fuel poor?

Following the Hills Fuel Poverty Review, the Government has introduced a new definition of fuel poverty, which we support. Under this new indicator, a household is considered fuel poor if:

- They have required fuel costs that are above the median level; and
- Were they to spend that amount they would be left with a residual income below the official poverty line.

Hills Fuel Poverty Review, *Getting the measure of fuel poverty*, (2012).

3.11 It is right that households in fuel poverty, and in particular those households in the deepest fuel poverty, are prioritised to receive energy efficiency improvements. However, there are practical challenges in accurately identifying households in fuel poverty and distinguishing them from other low-income households living in poorly insulated properties. In addition, people's circumstances change – so eligibility criteria which are too narrow could result in high search costs, reducing the funding available for improvements, and in households being denied assistance to which they may be entitled subsequently, and make it more difficult to develop a street-by-street delivery model. Moreover, as the definition of fuel poverty is relative, low-income households living in poorly insulated properties would simply fall into fuel poverty as soon as fuel poor households receive improvements and see their energy costs fall.

3.12 We therefore propose that funding raised via ECO should be targeted at low-income households living in properties with an EPC D or worse.

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<sup>47</sup> Analysis provided by the Association for the Conservation of Energy (2014).

**Question 5:** How do we best ensure that all revenues raised from the Energy Company Obligation go to households in or at risk of fuel poverty?

**Question 6:** Do you think that low-income households living in properties with an EPC rating of D or lower is a suitable proxy for households in or at risk of fuel poverty?

### Delivered street-by-street and led by local authorities and other trusted bodies

3.13 Instead of obliging energy companies to deliver the energy efficiency improvements themselves, as currently happens, we will continue to levy the suppliers for this amount, but create a central pot of money to fund local area-based energy efficiency programmes, delivered by local authorities, housing associations, community organisations and other trusted intermediaries. These intermediaries could then choose to partner with a variety of businesses, including local small businesses, to install the measures. We believe this delivery model has a number of advantages over the existing arrangements:

- Engaging at a local level establishes undertaking these improvements as a social norm – spurred into action in response to the activity of their neighbours. Therefore an approach whereby activity is concentrated within a particular area can create a wave of uptake that cannot be achieved with disparate, individualistic approaches.
- More cost-effective – the logistics of delivering many schemes at once within an area have been proven to achieve economies of scale in both delivery and purchasing costs.<sup>48</sup>
- Involves locally based organisations with well-recognised and trusted brands, plus a clearer understanding of what can best be achieved locally, would add value or could be linked with other planned works. It could also provide opportunities for local jobs and training, as well as partnerships with local small and medium-sized businesses.

#### Learning from Arbed: Successful local energy efficiency partnerships in Wales

Arbed is an energy efficiency programme run by the Welsh Government in conjunction with housing associations and local authorities with the objective of eradicating fuel poverty and boosting economic development and regeneration in Wales. The scheme has been successful because:

- Over 6,000 homes have been insulated so far, with plans to insulate a further 4,800.
- Funding from the Welsh Government was complemented by funding from the European Regional Development Fund.
- Local businesses were able to manufacture, supply and install many of the measures – most products were manufactured in Wales, training and employment was provided to unemployed people and 41 of the 51 installers operated primarily or solely in Wales.

*Arbed 2 ERDF. (2014).*

<sup>48</sup> Energy Saving Trust, *Area-Based Approach: Best Practice Guide*, (2009).

3.14 There are a number of different ways in which this scheme could be delivered. We propose that the levy on the energy companies be collected by central Government, who would then invite local or regional organisations to apply for funding for improvements in their area, against a set of agreed criteria. These criteria would need to include, but not be limited to: value for money, including whether any additional or match funding can be leveraged, and the effect on fuel poverty and low-income households. There would also need to be safeguards in place to ensure that funding was distributed equitably and that, wherever possible, the pot of money available is grown by match funding or other revenue streams. There have been a number of energy efficiency schemes which have operated in this way, including:

- The Community Energy Saving Programme, which delivered energy efficiency improvements using a house-by-house approach in low-income areas. It incentivised the installation of multiple measures in a single household and the treatment of as many dwellings as possible in a single low income area. In total, over 150,000 households were upgraded.<sup>49</sup>
- The Green Deal Communities Fund, which provided £88 million funding to 24 local authorities and provided assistance to approximately 32,000 households.
- The Warm Zones programme.

#### **Learning from Warm Zones: How would an area-based energy efficiency scheme work?**

Warm Zones aim to tackle fuel poverty and improve energy efficiency through a comprehensive area-based delivery approach. Warm Zones work with local authorities and energy companies, together with a range of other local organisations. Each Warm Zone is adapted to local circumstances, to meet local needs and policy priorities. Local partners, trusted by the local community, help to promote the Zone and to refer households for assistance.

Each Warm Zone programme takes a street-by-street approach, working in close partnership with trusted local organisations – this maximises the take-up of the assistance available as households see the benefits to their friends and neighbours. The approach also delivers economies of scale by delivering energy efficiency improvements more effectively.

Warm Zones identify, access and deliver individually tailored packages of energy efficiency measures to each household, to ensure the best outcome for each household that receives assistance. Warm Zones is a community interest, not-for-profit company, and has been operating since 2001. There are now 14 Warm Zones in total delivering area-based schemes across the country.

Warm Zone, *What We Do*, (2014).

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<sup>49</sup> Ofgem, *The final report of the Community Energy Saving Programme (CESP) 2009-2012*, (2013).

**Question 7:** How do we most effectively deliver an area-based energy efficiency scheme?

**Question 8:** Which organisations do you believe are the best delivery agents for energy efficiency improvements?

**Question 9:** How should funding be allocated so as to ensure an equitable distribution between different communities? What criteria should be used when determining which projects should be prioritised?

**Question 10:** How can we best use government energy efficiency schemes to bring in other investment and boost economic development and regeneration?

### A whole-house approach

3.15 When a property receives energy efficiency improvements, it is important that these are delivered in the most cost-effective way possible. We believe that the most cost-effective approach to reducing fuel poverty is to upgrade low-income high-cost households to a minimum of EPC C as part of a whole house retrofit.

3.16 The current ECO scheme is largely a single measure programme, delivering an average of 1.2 measures per household.<sup>50</sup> While this will result in some savings to bills for households, it will often not be sufficient to lift them out of fuel poverty entirely or make a significant dent into the fuel poverty gap. The Government's own fuel poverty target is for all fuel poor households to be upgraded to EPC C, which requires an average of 3.1 measures per household to be installed. This means that the existing single-measure approach will require households to undergo two or even three retrofits, which will incur significant additional costs compared to doing the improvements in one go.

3.17 We believe EPC C is the right standard because households living in D, E, F or G rated properties account for over 95 per cent of fuel poor households and nearly 95 per cent of the fuel poverty gap.<sup>51</sup>

3.18 In addition, research by the Association for the Conservation of Energy suggests that the marginal costs of improving properties to EPC C are also not significantly greater than improving to EPC D, yet result in significantly bigger savings on energy bills. The average cost of improvements to bring a household up to EPC level C is approximately £4,750, with a cap of £10,000 for any one property. Nearly nine out of ten properties can be brought up to

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<sup>50</sup> Department for Energy and Climate Change, *Domestic Green Deal and Energy Company Obligation in Great Britain, Monthly report*, (October 2014): 5.

<sup>51</sup> Department for Energy and Climate Change, *Fuel Poverty under the low income high costs AHC equivalised income definition by SAP band*, (2014): Table 22.

EPC C for less than £10,000. This cost of improvements to bring a household up to EPC D is estimated to be £3,120.<sup>52</sup>

3.19 Bringing fuel poor households up to EPC C is estimated to result in an average householder bill saving of £273 a year, compared to £153 a year if a household is brought up to EPC D. However, owing to high energy costs, many poorly insulated and fuel poor households are not heated enough, and some households may therefore use some of the savings from improved energy efficiency to heat their homes to a more comfortable level, meaning that the total monetary saving may be less than this figure.

3.20 The existing annual budget of the Energy Company Obligation is £940 million per year. Of this, £78.5 million has been allocated for the provision of half a million free personalised home energy reports a year, meaning approximately £860 million is available for energy efficiency improvements. The Scottish and Welsh administration also have their own energy efficiency programmes— if an integrated approach could be developed, this could represent an annual budget for improvements sufficient to upgrade at least 200,000 households a year.

**Question 11:** Do you support moving from a single-measures approach to whole house retrofits?

**Question 12:** Do you think EPC C is an appropriate target for whole house retrofits?

### Pay-As-You-Save

We will provide interest free loans for energy efficiency for up to 1 million households in the next Parliament

3.21 We believe it is right that support for energy efficiency is targeted at those households most in need and on the most cost-effective measures. However, we also recognise that high energy bills are not simply a problem for people living in fuel poverty. We therefore want to support other households to reduce their energy bills by improving the energy efficiency of their homes.

3.22 We support the principle of a pay-as-you-save scheme. However, because of the unattractive levels of interest attached to Green Deal loans, take-up has been extremely disappointing. We will therefore overhaul the Green Deal to offer interest free loans to households for energy efficiency improvements.

3.23 We will reduce the interest rate in two ways. First, we will provide a government guarantee for the Green Deal Finance Company. At the moment, because the concept of a pay-as-you-save scheme is still unproven and take-up levels have been so low, the cost of borrowing for the Green Deal Finance Company includes a risk premium, which makes the level of interest on Green Deal loans for consumers higher than it otherwise would be. We

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<sup>52</sup> Analysis provided by the Association for the Conservation of Energy (2014).

will therefore guarantee the borrowing of the Green Deal Finance Company. We believe that this could reduce the effective interest rate to consumers to well below current levels. However, we do not believe that a figure in the region of 5 per cent is, at the moment at least, a sufficiently attractive level of interest to make the Green Deal an attractive proposition. Secondly, therefore, we will reduce the interest rates further, by using the funding currently allocated to energy efficiency in the next Parliament to subsidise the interest rates down to 0 per cent.

3.24 As part of the Autumn Statement in December 2013, £450 million was made available to support domestic installation of energy efficiency measures. £150 million of this was allocated to 2014/15 and spent on the Green Deal Home Improvements Fund, meaning that a further £300 million has been budgeted for energy efficiency in the next Parliament but not yet allocated. Based on public data from the Green Deal Finance Company, we propose to use this funding to subsidise up to 1 million loans for energy efficiency that are interest free in the next Parliament. This is consistent with modelling in IPPR's Help to Heat Report.<sup>53</sup> Decisions about future interest rates will be taken as part of a full spending review.

3.25 Pay-as-you-save is an important principle for households, and it is crucial that households are not asked to pay back more than they can afford. But there may be some customers who would prefer to have the option to do more work than PAYS allows, or to pay back over a shorter time period. Different kinds of repayment options will be attractive to different types of customers and we believe that there should be sufficient flexibility in the design of energy efficiency loans to address this.

3.26 Greater flexibility could also allow for additional or a different combination of measures to be included as part of an energy efficiency package, including, for example, LED lighting and heating controls, which may also make improvements more attractive to households.

#### **Learning from Germany: Making pay-as-you-save work**

Germany has an extremely successful and popular pay-as-you-save energy efficiency loan scheme operated by its KfW bank:

- Loans for energy efficiency improvements are made available at an interest rate of 1 per cent.
- There are also further discounts available, so that the total debt to be repaid gets reduced by up to 17.5 per cent, depending on the standard of energy efficiency reached, with the most efficient properties receiving the biggest relief.
- In 2012 alone, approximately 242,312 households took out an energy efficiency loan.

*KfW, Promotional programmes for energy efficiency in the housing sector, (2013).*

<sup>53</sup> IPPR, *Help to Heat*, (2013): Table 5.1.

**Question 13:** Do you think that offering interest free loans for energy efficiency improvements will be sufficient to increase demand among able-to-pay households?

**Question 14:** How can we best offer greater flexibility for the length of an energy efficiency loan, or to the repayment structure, so as to make households more likely to take out a loan?

**Question 15:** Do you think that any additional energy efficiency improvements to those already approved should qualify for finance under an energy efficiency loan?

**Question 16:** How do we ensure that the widest possible cross-section of households can access interest free loans for energy efficiency improvements?

**Question 17:** How do we maximise public awareness about interest free loans and energy efficiency?

**Question 18:** What lessons can be learnt from the failure of the Green Deal scheme?

### Standards in the private rented sector

We will set a new target to upgrade all properties in the PRS to a minimum of EPC C by 2027

3.27 The Energy Act 2011 contains provisions to prevent landlords in England and Wales from letting properties that fall below EPC E by 2018, unless the landlord has carried out the maximum package of measures that can be funded under the Green Deal. The Government is currently consulting on regulations to bring these provisions into effect. The Energy Act 2011 also provides Scottish Ministers with powers to implement domestic and non-domestic private rented sector energy efficiency regulations, which have not yet been used in the domestic sector.

3.28 We support minimum standards for energy efficiency in the private rented sector (PRS). As paragraph 1.10 highlighted, the PRS has the lowest standards of energy efficiency and the highest incidence of fuel poverty.

3.29 However, we do not believe that upgrading properties in the private rented sector to an EPC E is sufficient. In his report on fuel poverty Professor Hills stated that: "Only aiming for an EPC E will leave many private tenants still in fuel poverty".<sup>54</sup> Analysis by the Association for the Conservation of Energy also suggests that there are approximately 700,000 fuel poor households living in the private rented sector. However, just 130,000 live in properties with an EPC E, meaning that fewer than one in five fuel poor households will see any improvement to the energy efficiency of their homes.<sup>55</sup>

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<sup>54</sup> Hills Fuel Poverty Review, *Getting the measure of fuel poverty*, (2012): 17.

<sup>55</sup> Analysis provided by the Association for the Conservation of Energy (2014).

3.30 We therefore do not believe that the Government is being ambitious enough. We would like to go further and set a more ambitious target which will help more people keep their homes warm and cut their energy bills. In return we think it is fair to consider giving landlords longer to make the improvements that are needed. We therefore propose a new target of all PRS properties to be brought up to EPC C by 2027.

3.31 It will not be possible to either reduce the extent and depth of fuel poverty, or reduce carbon emissions, without improving the energy efficiency of our housing stock, including properties in the private rented sector. We believe it is important that landlords are given long-term visibility about future targets. Our proposals would give landlords 12 years after the next election to make sensible plans to improve their energy efficiency properties and give them the option of doing the work incrementally, or all in one go.

**Question 19:** Do you support a new target on landlords to improve all properties in the private rented sector up to EPC C by 2027?

**Question 20:** How can we best support landlords to enable them to upgrade their properties?

### Building Regulations

3.32 Building regulations are an effective tool to address energy consumption and CO2 emissions in the built environment. Changes to the building regulations can bring about real energy savings running to hundreds of pounds a year for occupiers and bring real benefits to the housing and construction industry.

### Zero Carbon Homes

3.33 Labour's Zero Carbon Homes policy, which set out a route map to ensure all new homes were zero carbon from 2016, was a ground-breaking announcement, and had a galvanising effect on the house building industry and supply chain. Unfortunately, under the Coalition Government, Labour's Zero Carbon Home policy has been progressively undermined. Most notably, the Government's decision to water down the definition of the on-site carbon compliance standard that was established by the Zero Carbon Hub (a public/private partnership which is respected across industry) has been particularly damaging. As a result of these changes, new homes from 2016 will not be zero carbon. In addition, the Government has also announced an unexpected exemption for 'small sites'.

3.34 Labour remains committed to zero carbon homes and a genuine definition as set out by the Zero Carbon Hub. Labour is also opposed to an indefinite exemption of small sites. We will work with the industry to ensure this ground breaking policy is implemented under the next Labour Government.

3.35 In addition, Labour will continue to ensure that extensions to existing properties, including those covered by permitted development, are subject to full building regulation control to achieve compliance with high energy efficiency standards.

### **Energy efficiency – a national infrastructure priority**

*We will designate energy efficiency as a national infrastructure priority*

3.36 In total there are approximately 6 million low-income homes in the UK living in properties with an EPC D or lower. We recognise that upgrading these homes is a long-term task, which will span the lifetime of successive governments.

3.37 We have committed to establishing a National Infrastructure Commission, and we will designate energy efficiency as one of its priorities, in recognition of the importance we attach to it and as a clear sign that it will be a priority for the next Labour Government.

**Question 21:** In what ways could energy efficiency benefit from being designated as a national infrastructure priority?

## 4. LABOUR'S POLICIES: COMMERCIAL AND PUBLIC SECTORS

**Our goal is to cut energy costs for businesses and the public sector, insulate them from future energy price rises and boost UK competitiveness, through improved levels of energy efficiency.**

4.1 To support energy efficiency in the commercial and public sectors, it is essential that the policy framework is simplified and provides much longer-term certainty. We will also explore support to SMEs facing difficulties in accessing up-front capital to realise long-term savings, and measures to boost energy efficiency take-up across the public sector.

### **Greater certainty and simplicity for businesses**

4.2 Minimum energy performance standards provide a powerful signal to improve the worst-performing and most wasteful non-domestic buildings. However, the Government has been slow to confirm its intentions, or indicate the pace and scale for further improvements beyond 2018, making it difficult for businesses to plan and make long-term decisions to invest in energy efficiency.

4.3 We support minimum energy performance standards and the target for non-domestic rental premises to meet EPC E by 2018. However, advice from the Committee for Climate Change and others shows that minimum non-domestic energy efficiency standards need to go much further. We will consult with business to set out a clear path over the next Parliament and beyond for further improvements to minimum energy performance standards.

**Question 22:** Do you believe that a long-term path for energy efficiency will encourage investment in non-domestic energy efficiency?

**Question 23:** Do you believe that there are advantages to making minimum energy performance standards in the domestic sector consistent with those of the residential private rented sector?

4.4 Currently, many businesses and public sector organisations are required to respond to multiple and often overlapping information requirements on their energy use, which is administratively complex and provides for uneven incentives.

4.5 We will consult with industry to explore whether reporting and audit requirements can be simplified, with the aim of moving to a single, easily enforceable and comparable source of information for the majority of businesses. To help businesses, and particularly small businesses, understand these requirements, we will introduce easily-accessible information on energy efficiency requirements, and explore how engagement and awareness can be stepped up as part of the design and implementation of any further energy efficiency measures.

**Question 24:** How can reporting requirements best be simplified for non-domestic buildings?

**Question 25:** How can awareness of these requirements and energy efficiency opportunities be improved?

### Financing energy efficiency for small and medium-sized businesses

4.6 Improved access to finance remains an important part of increasing the take-up of energy efficiency measures among some businesses, particularly small and medium-sized businesses. We will urgently explore ways to improve take-up of a pay-as-you-save loans model, including using the Government's balance sheet to guarantee loans and kick-start non-domestic loans financing, re-focusing loans on small and medium-sized businesses, and designing loans to better respond to the complex landlord-tenant relationships in the commercial sector.

**Question 26:** How can non-domestic financing be improved for small and medium-sized businesses in particular through a pay-as-you-save loans model?

### Building regulations

4.7 In 2008, the Labour Government committed to a target of 2019 for all new non-domestic buildings to be zero carbon. Subsequent work was carried out on the definition of zero carbon for non-domestic buildings. The current Government has expressed support for the target but has failed to provide clarity on the parameters of the zero carbon definition for non-domestic, or what the uplift in Part L of the Building Regulations will be in the lead up to 2019. This is despite an EU-wide standard on energy performance of buildings set to apply from 2020.

4.8 There is a strong economic and environmental case for establishing a route map for all new non-domestic buildings to be zero carbon. Only this certainty will provide industry with the incentive to invest in innovation and skills to meet higher standards. Labour will work with industry on the zero carbon standard for non-domestic buildings and on developing a route map to achieving it.

### Leadership through the public sector

4.9 Public sector buildings, such as the central government estate, hospitals and schools, accounted for over 3 per cent of the UK's total greenhouse gas emissions last year, and 10 per cent of all buildings emissions. The public sector also has an important role to play in leading the way on energy efficiency, helping to build expertise and innovation in the market and supporting local jobs. Crucially, energy efficiency can also save the taxpayer

money. For example, the public sector in England spends around £2.5 billion per year on energy, with estimates of 30 per cent savings possible.<sup>56</sup>

4.10 The Government has committed to reduce greenhouse gas emissions from the central Government estate by 25 per cent by 2015. We will set out a clear path over the next Parliament and beyond for further reductions in central Government greenhouse gas emissions, and for the role of local government and other parts of the public sector to reduce their energy use, with energy consumption some of the highest costs after staffing for some organisations like schools and hospitals.

4.11 However, for many organisations in the public sector, capital for energy efficiency upgrades remains a barrier. Salix Finance was established as an independent, publicly funded company in 2004 to provide interest free loans to public sector organisations in Britain to kick-start energy efficiency improvements, with loans paying for themselves usually within five years, and generating long-term savings. We will continue this model, and explore ways in which to step up energy efficiency upgrades in the public sector. For example, we will look at ways to give a greater role for local authorities and hospital groups by co-funding projects, raising awareness and allowing them to reinvest returns in other projects. We will also explore ways in which public sector organisations with some of the highest potential energy efficiency savings can be better targeted to invest in energy saving measures.

**Question 27:** How do we most effectively deliver greater energy efficiency in the public sector?

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<sup>56</sup> Department for Energy and Climate Change, *A guide to financing energy efficiency in the Public Sector*, (2012).

## 5. NEXT STEPS

5.1 Our proposals for energy efficiency stem from the Policy Review conducted by the Labour Party over the last three years. At the Labour Party Conference in 2013, Ed Miliband and Caroline Flint announced a package of measures we would introduce to reset the energy market and subsequently published our Green Paper. It also made a commitment to come forward with further plans to keep bills affordable in the long term by getting everyone to play their part in reducing the energy we use as a country. The purpose of this Green Paper is to set out in more detail the nature of the Party's policy commitments and to provide an opportunity for interested parties to engage in the development of those proposals.

5.2 Prior to and following on from the announcement of our energy market proposals we have engaged closely with a wide range of stakeholders, including trade associations, consumer groups, large and small energy companies, investors and NGOs to gather views and evidence on our policy proposals. We want to continue to work with the industry and beyond on the detailed mechanics of implementation so that we can move at pace when we enter office. We therefore seek detailed comments and views on the proposals outlined in this Green Paper from all interested parties. Responses should be sent to [yourbritain@labour.org.uk](mailto:yourbritain@labour.org.uk) by 22 December 2014, with the subject heading "Energy Efficiency Green Paper". Please respond to the questions in the consultation as fully as possible, and attach any supplementary information as appendices.

5.3 During the consultation period, we will hold a series of focussed roundtable meetings. These will provide opportunities for stakeholders to ask us about our policy proposals, and feed back to us directly. If you would like to be involved in these discussions please contact [yourbritain@labour.org.uk](mailto:yourbritain@labour.org.uk).

## 6. ANNEX: CONSULTATION QUESTIONS

**Question 1:** Do you think that other incentives, measures or publicity will be needed in order to raise awareness about potential savings from energy efficiency improvements?

**Question 2:** Do you think that any changes need to be made to the content, format or process by which Green Deal assessments are currently provided?

**Question 3:** Do you think that personalised home energy reports would be better provided by local energy efficiency providers or directly from central Government to individual households?

**Question 4:** How can we best manage the transition from the existing energy efficiency framework to the policies proposed in this Green Paper, in order to minimise disruption to consumers and industry?

**Question 5:** How do we best ensure that all revenues raised from the Energy Company Obligation go to households in or at risk of fuel poverty?

**Question 6:** Do you think that low-income households living in properties with an EPC D or lower is a suitable proxy for households in or at risk of fuel poverty?

**Question 7:** How do we most effectively deliver an area-based energy efficiency scheme?

**Question 8:** Which organisations do you believe are the best delivery agents for energy efficiency improvements?

**Question 9:** How should funding be allocated so as to ensure an equitable distribution between different communities? What criteria should be used when determining which projects should be prioritised?

**Question 10:** How can we best use government energy efficiency schemes to bring in other investment and boost economic development and regeneration?

**Question 11:** Do you support moving from a single-measures approach to whole house retrofits?

**Question 12:** Do you think EPC C is an appropriate target for whole house retrofits?

**Question 13:** Do you think that offering interest free loans for energy efficiency improvements will be sufficient to increase demand among able-to-pay households?

**Question 14:** How can we best offer greater flexibility for the length of an energy efficiency loan, or to the repayment structure, so as to make households more likely to take out a loan?

**Question 15:** Do you think that any additional energy efficiency improvements to those already approved should qualify for finance under an energy efficiency loan?

**Question 16:** How do we ensure that the widest possible cross-section of households can access interest free loans for energy efficiency improvements?

**Question 17:** How do we maximise public awareness about interest free loans and energy efficiency?

**Question 18:** What lessons can be learnt from the failure of the Green Deal scheme?

**Question 19:** Do you support a new target on landlords to improve all properties in the private rented sector up to EPC C by 2027?

**Question 20:** How can we best support landlords to enable them to upgrade their properties?

**Question 21:** In what ways could energy efficiency benefit from being designated as a national infrastructure priority?

**Question 22:** Do you believe that a long-term path for energy efficiency will encourage investment in non-domestic energy efficiency?

**Question 23:** Do you believe that there are advantages to making minimum energy performance standards in the domestic sector consistent with those of the residential private rented sector?

**Question 24:** How can reporting requirements best be simplified for non-domestic buildings?

**Question 25:** How can awareness of these requirements and energy efficiency opportunities be improved?

**Question 26:** How can non-domestic financing be improved for small and medium-sized businesses in particular through a pay-as-you-save loans model?

**Question 27:** How do we most effectively deliver greater energy efficiency in the public sector?

