Realising the potential of Scotland's Energy Efficiency Programme

A Report for the Existing Homes Alliance Scotland

Executive Summary

August 2016

The overall aim of this paper is to inform the development of the National Infrastructure Priority on energy efficiency and its cornerstone programme, Scotland's Energy Efficiency Programme (SEEP).

The starting point is the Existing Homes Alliance position that SEEP's objective should be to ensure the vast majority of homes in Scotland should be at the Energy Performance Certificate (EPC) band C by 2025[1]. In the Alliance's view, this level of ambition is required to meet fuel poverty and climate change objectives, and to achieve the maximum return on investment in terms of benefits – for health, jobs, and energy security.

The report sets out principles for a delivery model for SEEP based on:

- Energy efficiency measures needed to ensure that the majority of Scotland's homes reach EPC C by 2025.
- Estimates of the broad scale of costs involved.
- Financial assistance that will be required, alongside regulation, to encourage action.

Measures

SEEP should include the following:

New approaches to deliver the remaining low-cost measures (loft and cavity wall insulation)

The main challenges relate to engagement rather than cost or technical issues so a householder-centred approach, involving a series of niche market programmes, working with trusted intermediaries is recommended.

A strong focus on delivery of wall insulation particularly solid wall insulation (SWI).

As the proportion of insulated solid walls is currently very low, it is likely that area-based schemes will be effective in targeting areas where households are at greater risk of fuel

[1] Joint statement on the National Infrastructure Priority, ExHA, October 2015 http://existinghomesalliancescotland.co.uk/policy/no-one-in-scotland-living-in-a-hard-to-treat-draughty-home-by-2025/

poverty. SEEP should also provide financial incentives for the able to pay market, to help grow the private sector market and complement area-based programmes.

Expanding the market for renewable heat.

While almost all fossil fuel central heating systems are expected to have efficient boilers by 2025, there is much greater uncertainty around take up of renewable heating systems. Current take-up is far below that required, despite the availability of incentives. Greater understanding of how best to expand the current market is needed, with an emphasis on developing and supporting effective partnerships.

Similarly, delivery of district heating necessarily requires a strategic approach, which goes beyond provision of finance to include wider action in relation to the planning system and connection of public buildings to provide base load for new systems.

Costs

The estimated costs for upgrading the housing stock to EPC band C or above are £7bn over 10 years.[2] The report identifies a funding gap of approximately £3.2bn (or £320m per year) compared with a continuation of current funding levels.

It is clear that the main financial challenge for SEEP will be to identify funding for large scale delivery of solid wall insulation – for measures and the necessary engagement and support for households.

The need for renewable or district heating heating systems (and to some extent, SWI as well) is concentrated towards those using electric heating or other off-gas fuels, who are already significantly more likely to be in fuel poverty. It would be helpful to consider the extent to which this will influence financial modelling.

Enabling actions

Regulation:

The Alliance believes that regulation for minimum standards of energy performance is needed to complement persuasion and financial incentives and drive the market for take-up of measures. This is an essential driver for engagement in both the owner-occupied sector and the private rented sector where tenants are less likely to be able to take action themselves.

[2] This figure is less than the £10.7bn estimate provided in the Alliance policy briefing on the National Infrastructure Priority because the analysis only covered significant measures (solid wall insulation, cavity wall insulation, and efficient boilers) and a projected contribution from the supplier obligation is included. It also does not consider costs for renewable heat and district heating.

Advice and support:

Extended programmes of support, including behaviour change advice, home visits, and tailored assessment of energy needs and selection of appropriate measures should be integrated in to the delivery of SEEP from the outset, to ensure that physical measures deliver in practice the benefits they provide in theory.

Best use of benefits:

The significant sums involved in the Winter Fuel Payment, Cold Weather Payments and Warm Homes Discount mean that targeting must be as effective as possible to help address fuel poverty.

Flexibility in programmes

As both the range of measures needed and the associated consumer support required increases, different approaches will be required. It would, for example, be useful to pilot an approach which started with a location – perhaps a large village or small town – in which research was carried out to map local needs, and an area-based programme was designed around local needs. Such an approach could also maximise economic benefits through opportunities for local contractors.

Principles for delivery

We recommend that the delivery model for SEEP should:

- Continue to provide a **national fuel poverty programme** which responds to the needs of individual consumers in fuel poverty in an integrated way. Public funding in support of the wider delivery of SEEP should clearly be additional to existing fuel poverty programmes, and grants should be targeted so that recipients will avoid the risk of fuel poverty in the future.
- Create **a market for more energy efficient homes** (and non-domestic buildings), and therefore a more stable market for installation of measures through the **introduction of minimum energy efficiency standards for existing homes** which will rise over time.
- Use other **non-financial actions to encourage and facilitate action**, such as public sector purchasing, planning, building regulations and approaches to the management of blocks of flats, particularly in relation to the roll out of district heating.
- Provide a **range of financial solutions** for consumers which can be offered in line with their individual circumstances and the measures that need to be implemented; there should be no barrier to installation of measures because of lack of finance for up-front costs. Support should be prioritised towards lower income groups, and towards consumers who will help build the market for newer measures.
- Introduce **loans, secured and unsecured,** for those who are property rich and/or have the necessary credit rating but may lack the cash needed to improve their homes; this approach may also be suitable for the private rented sector where both landlords and tenants might be expected to contribute.

- Provide **guidance on behaviour change**, **measures and finance packages** tailored to the householder, which are independent of the sale of specific measures. Support should also be available to maximise incomes and lower energy bills through tariff advice. Follow-up support should also be offered to ensure gains are maintained.
- Provide a series of **targeted, area- and thematically-based energy efficiency programmes;** for example, it would be possible to target different types of solid wall insulation towards areas depending on the concentration of different properties and / or work through trusted intermediaries to engage specific target groups of consumers.
- Provide **guarantee mechanisms** to ensure consumer confidence, such as accreditation systems for installers and clear systems for redress in the event of poor workmanship or faults.
- Put in place a **robust monitoring and evaluation** framework to ensure that the real impacts of the programme are understood and can benefits are maximised.

Governance and delivery structures

We believe that successful delivery of SEEP will depend on the establishment of clear and robust governance structures, at all appropriate levels, combined with capacity building to ensure that all delivery agencies are capable of providing a consistent service, in line with the aspiration of a National Infrastructure Priority. We recommend that:

- The NIP / SEEP are overseen by a Ministerial group, representing all appropriate Scottish Government interests.
- The existing SEEP Programme Board should be widened to reflect the above.
- Local partnerships are used to deliver SEEP, bringing together housing improvement and regeneration expertise together education and health and social care partnerships to maximise impact in terms of climate change, fuel poverty, economic development and health and well-being.
- SEEP includes area-based programmes which give priority to those most in need and a national fuel poverty programme to ensure anyone in fuel poverty can get help no matter where they live.
- SEEP area-based programmes will also include programmes of support and incentives for able-to-pay households and target mixed properties (domestic and non-domestic) where appropriate.
- An evaluation framework is established which reports on outcomes at all levels, including outcomes relating to health and economic development as well as to reductions in fuel poverty and climate change emissions.

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Further research

- Research on wall insulation to better understand the remaining need for different types of wall insulation across Scotland, together with reviews of past pilots to determine which approaches have performed best in practice.
- Extend REEPS modelling to assess measures required to reach EPC C. In particular, determine the likely impact on EPC levels of the vast majority of boilers being efficient condensing models, as is likely to happen by 2025 under by current trends.
- Future work on developing financial models for SEEP should recognise that the majority of costs of the programme are likely to come from delivery of solid wall insulation together with delivery of low carbon heating systems in off gas areas; mapping will be necessary to understand the extent of overlap between these needs and likely demand and ability to pay.
- Research on provision of advice and support is carried out to inform how best to integrate these into the delivery of SEEP.

Conclusion

The National Infrastructure Priority on energy efficiency and the SEEP programme should provide a step change in the energy performance of homes in Scotland, which will bring a host of benefits:

- Reduced levels of fuel poverty;
- Reductions in climate change emissions;
- Local economic development and jobs throughout Scotland; and
- Health and well-being benefits from improved living conditions in homes across all areas of Scotland.

This report proposes a bold and robust approach to the design and delivery of SEEP that will see Scotland's existing housing infrastructure become a real asset in addressing the challenges of poverty, inequalities, health, and climate change. If implemented, it would set the example for the rest of the UK and Europe on how an infrastructure approach to existing housing can deliver excellent value for today's and future generations.