green alliance…

Briefing
Protecting households every winter

September 2022

Summary

Without major government intervention, UK households face breaking point this autumn. UK inflation has reached double digits for the first time since 1982 and is forecast to peak at 13 per cent by October.

Ofgem has confirmed average energy bills will rise again to £3,549 in October. The government's intervention is welcome to stem the pain, but forecasts suggest the cost of energy without intervention could reach £4,649 and £5,341 in January and April respectively. Energy bills could remain well above the five year pre-2021 average up to 2030 and beyond, leading to an ever increasing cost of government support.

Tackling energy waste will ensure security of supply is maintained this winter and would prevent the need to intervene again next year. Even moving a home from EPC band D to band C would save an average household £420 a year.

According to our polling, **71 per cent of the public sees cost of living as the top issue facing the country** and they know what the solutions are: energy saving technologies and low carbon energy.

We are in an emergency which threatens livelihoods in a similar way to the pandemic. That means every policy lever available should be used to ensure households have energy and financial security, not just this winter but every year.

	Policy	Description
Energy Waste	National Campaign on Energy waste	Boost awareness of energy efficiency measures available
	'One stop' shops on high streets	Set up warm home units to offer advice to consumers, connect with suppliers and discuss financing
	Shift green levies	Move green levies from electricity bills to general taxation

	Cheap credit	Offer concessionary loans to homeowners to make upgrades through the UK Infrastructure Bank
Cheap Energy supply	People	Lower the cost of (re)training workers in renewable energy
	Planning	Reform the National Planning Policy Framework to accelerate renewable deployment
	Prices	Set a timeline to move policy costs from electricity to gas, ensuring market confidence
Funding	Tax credits	Offer super-deductions to green infrastructure projects
	Windfall tax	Raise the Energy Profits Levy in line with the global average

Ensure people have homes they can afford to heat

It is welcome that the government wants to intervene and directly support people to pay their energy bills. That is the only way to stem the pain this winter. It now needs to use the time it has bought to permanently reduce bills and prevent the need for intervention year after year, saving households and the government money. Wholesale gas prices will remain high for the foreseeable future. The government needs to not only help now but also employ solutions that will permanently make homes warmer and cheaper to heat.

To reduce energy waste across the UK, policy needs to remove three barriers:

1. **Lack of public knowledge**
2. **Shortages in supply chains**
3. **Access to finance**

1. With more information the public can act

Consumer research by Which? found that not knowing 'where to start', 'what the options are and what they involve' and poor information on approved traders and suppliers all deter people from upgrading the energy performance of their homes. To tackle this, the government should:

- **Launch a national campaign on energy waste.** The 'Get ready for Brexit' campaign cost the Cabinet Office £49 million, while Covid communications cost £184 million in 2020. Germany has run a campaign alongside the regulation of businesses to drastically reduce its gas use ahead of schedule. A campaign can explain the different energy efficiency measures available to consumers with estimations for installation costs and energy bill savings.

- **Resource a 'one stop shop' on every high street**. Alongside a national campaign, local authorities should be resourced to set up warm home units (WHUs). These one stop shops would provide a physical and credible resource to help interested consumers assess options, connect them with trusted suppliers and explain financial options.

2. Existing schemes spend money efficiently and build supply chains

As demonstrated by the success of the Green Homes Grant Local Authority Delivery Scheme, energy efficiency improvements can be delivered effectively, with little waste, through local authority or energy company led schemes. These schemes also help to build up skilled, local supply chains.

- **Complete Local Authority Delivery schemes.** Ensuring 100 per cent coverage of the social housing market not only protects the poorest and most vulnerable households but prepares the local supply chains for other housing tenures.
- **Move green levies from electricity bills to public spending.** This would cost the taxpayer £4.8 billion per year and would immediately take £153 off everyone's energy bills. Public spending is a fairer way to distribute costs, as lower income households spend a higher percentage of their income on energy bills than higher income households. Under this approach, those on the lowest incomes would save £98 a year and the highest income group would pay an additional £458 a year (£9 a week).
- **Invest in deep retrofit innovation**. The UK construction sector's productivity has been flat since 1994. Investing in whole house retrofits, which harnesses digital technology and construction innovation, will improve the labour productivity of the industry and lower installation costs for consumers. London and Ireland are both running such schemes.

3. The government can support warm homes as the default

The Climate Change Committee (CCC) estimates that the total investment cost of upgrading UK homes is around £250 billion, the bulk of which will come from the private sector.

- **Use warm home units to connect supply and demand:** WHUs should map their local, or combined, authority's level of need, targeting the most effective homes to address in their constituency. This could be a street by street approach, cover certain categories of tenure, or by EPC rating for example. This locally led approach would reflect an area's unique challenges and better connect supply and demand. WHUs can develop information packs explaining energy efficiency measures that builders and contractors could do alongside other home improvements. They could also provide consumer protection and remedy information. Finally, WHUs could aggregate demand, bringing economies of scale and providing larger incentives to tradespeople to take on work.

- **Bring the Future Homes Standard forward to 2023** to ensure all new homes built are energy efficient and use low carbon heating. The standard has been delayed to 2025, meaning owners of newly built properties face rising costs until then and putting the cost of future retrofit on homeowners and the government, rather than on housing developers.

- **Regulate the private rented and owner occupier sector to unlock private finance.** The government should commit to a minimum energy efficiency standard of EPC C faster than 2028 for private rented properties. Private rental homes are some of the coldest and most draughty in the country. The government can back this up with a 2030 target for all tenures of housing, at the point of sale. Minimum standards will provide a greater incentive for homeowners to upgrade their homes and give confidence to green mortgage lenders that there is demand.

- **Reform stamp duty.** The government should embed an energy efficiency adjustment to stamp duty. This would adjust the tax up or down, dependent on the property's energy use and carbon emissions, with a rebate from the total stamp duty paid for homeowners who invest in energy efficiency measures within the first two years of purchase. Knowing that homeowners could reduce their tax bills by upgrading their homes would drive more people towards adopting energy efficiency measures.

- **Make credit cheaper for green homes**
    - Green mortgages provide homeowners with finance to lower their bills by releasing equity to fund immediate gains. Sixty three per cent of homes need to spend as little as £1,000 to reach EPC C, but in a cost of living crisis many will need help accessing capital. Regulation and stamp duty reform will give lenders greater incentives to provide green mortgages, while one stop shops should provide information on products from retail banks or building societies to homeowners.
    - The government should also launch a programme of concessionary loans to homeowners. Unlike the Green Deal, where fixed terms and high interest rates were off-putting, these should be guaranteed and fixed at lower than interest rate levels. This could be administered by the UK Infrastructure Bank but provided to consumers through retail banks, who are better known and trusted. This follows a successful model in Germany which was underpinned by the state run KfW bank.

Speed up the transition to cheap, low carbon energy

The British Energy Security Strategy championed that "renewables reduce our exposure to volatile fossil fuel markets", but the cost of living crisis has meant we need to act faster. The public agrees. Our polling shows that 72 per cent of the public (and 77 per cent of 2019 Conservative voters) agree that investment in low carbon energy sources will give the UK more control over its own supply and bring down costs.

The government can speed up the provision of clean energy, lowering bills faster by focusing on people, planning and prices.

People: make it easier for skilled workers to change jobs

The power sector labour force will need to grow by at least 200 per cent to meet capacity targets with existing low carbon technologies. Anticipating the skills gap will prepare local authorities, businesses and workers for the transition, minimising disruption.

Increase financial security around job switching and retraining. Target grants and low cost loans to those training and retraining in the low carbon power sector. Further lowering the cost of retraining by extending capital allowances like the super-deduction to intangible capital like skills and restoring the Union Learning fund will boost supply.

Planning: unblock restrictions to scale up renewables

Climate inaction over the past decade, including restricting planning laws on onshore wind, have added £2.5 billion to UK energy bills. These planning restrictions do not reflect public opinion. Support for building more wind (71 per cent) and solar (70 per cent) infrastructure is just as popular locally as nationally.

- **Reform the National Planning Policy Framework**, and replace it with a proportionate system which allows appropriate sites to be developed. Immediately easing planning restrictions could bring new capacity online in under two years, faster than fracking. **This could be complemented by a net zero statutory duty for Ofgem** to help prioritise building renewables in the right place.
- **Provide incentives for green infrastructure investment.** The current system of investment allowances is not doing enough to meet national policy objectives. The government should offer super-deduction level expenses only to those projects that are accelerating the move away from fossil fuels, like new green energy developments. **The government can support investor confidence with a Clean Power Plan**, setting out the roadmap to a fully decarbonised power sector by 2035.

Prices: decouple gas from electricity prices

Clean energy is the cheapest source of electricity and four to six times cheaper than gas power. Despite this, the wholesale electricity price is still set by volatile, and now very expensive, global gas markets. **The Review of Electricity Market Arrangements (REMA) process should have the delivery of cheap, clean electricity to consumers at its core.**

A 'green power pool' could be implemented in advance of REMA in the steel industry to provide immediate access to cheap renewable power and trial market reform quickly in a strategic industry. If it is successful, the scheme could be expanded to vulnerable households, reducing the payments the Treasury will need to make to support people during the gas price crisis. As the Department for Business, Energy and Industrial Strategy has already recommended, this should include **a timeline to move policy costs away from electricity bills and on to gas.**

Invest in energy efficiency and low carbon energy

Global headwinds mean public finances are tight. It is vital that government money is used efficiently to deliver the most impact. Lowering energy bills will lower inflation and relieve the pressure on household finances, boosting the consumer confidence that underpins the economy. Investing now will prevent a cost of living crisis year after year under increasingly volatile fossil fuel prices.

The government has room to manoeuvre on taxes:

- **Raise the Energy Profits Levy (EPL) to the global average**. The EPL of 25 per cent raised the total tax rate on UK North Sea oil and gas closer to historical levels of around 65 per cent. However, this is below the global average for oil and gas taxation (70 per cent) and far below for example Norway (78 per cent).
- **Scrap the EPL investment allowance.** The EPL included a generous allowance for oil and gas companies to offset investment in new fields against their tax ball. Scrapping this alongside offering more generous investment allowances in renewables would ensure that government finances work harder to mitigate, rather than lock in, gas price driven inflation.

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