Briefing

Protecting households and public finances every winter

November 2022

green alliance...

Summary

The six month Energy Price Guarantee (EPG) is welcome to stem the pain caused by the recent rise in energy bills, but forecasts suggest bills could rise further, to £4,649 and £5,341 in January and April respectively, leaving two thirds of households (18 million) in fuel poverty. Energy bills could remain above the five year pre-2021 average, up to 2030 and beyond.

The government must tackle energy waste, ensuring security of supply is maintained this winter, and provide a more fiscally sustainable set of interventions following the EPG. Even moving a home from Energy Performance Certificate (EPC) band D to band C would save the average household £420 a year.

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

With a fraught fiscal situation, the government should use every policy lever it has available to ensure households have energy and financial security, not just this winter but every year. Making cuts now, to net zero capital spend, will be a false economy that will cost the government and households more down the line.

Summary of policy options

	Policy	Description
Energy Waste	National Campaign on Energy waste	Boost awareness of the energy efficiency measures available
	'One stop' shops on high streets	Set up warm home units to provide advice to consumers, connect with suppliers and discuss financing
	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 renewables deployment
	Prices	Set a timeline to move policy costs from electricity to gas and ensure 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

The EPG was the only way to stem the pain of rising energy bills this winter. With a review ongoing, the government should use this opportunity to reduce bills permanently 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 not only to help households now but also to 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 reduce gas use significantly and ahead of schedule. A campaign can explain the different energy efficiency measures available to consumers with estimations for installation costs and energy bill savings. This could potentially reduce gas demand by 20 per cent, saving the Treasury £9 billion.

- **Support 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 also help to build up skilled, local supply chains.

- **Complete Local Authority Delivery schemes.** Ensuring 100 per cent coverage of the social housing market would not only protect the poorest and most vulnerable households but prepare the local supply chains for other housing types.
- **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 (WHUs) to connect supply and demand.** WHUs should map their local, or combined authority's, level of need, targeting the most effective homes to address. This could be a street by street approach, covering certain categories of tenure, or EPC rating. This locally led approach would reflect an area's unique challenges and better connect supply and demand. WHUs could provide 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, they 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 are energy efficient and use low carbon heating.** The standard has been delayed to 2025, meaning that owners of newly built properties face rising

costs until then and the cost of future retrofit is put on them and the government, rather than 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 sooner 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, depending on a 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 they could reduce their tax bills by upgrading their homes would drive more homeowners 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 means 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 prices, people and planning.

Prices: 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. Reducing energy bills will lower inflation and relieve pressure on household finances, boosting the consumer confidence that underpins the economy. It would be a false economy to cut capital spending on net zero or the resource spending to deliver it. Investing now will prevent a cost of living crisis year after year under increasingly volatile fossil fuel prices.

The government has room to manoeuvre by increasing some taxes:

- **Raise the Energy Profits Levy to the global average.** The Energy Profits Levy of 25 per cent raised the total tax rate closer to historical levels for the UK of around 65 per cent. However, this is below the average for oil and gas (70 per cent) and the level of Norway (78 per cent). Raising to Norway's level could generate £33 billion revenue until 2027.

  Scrapping the accompanying investment allowance, and offering more generous investment allowances for renewables, would ensure that government finances work harder to mitigate, rather than lock in, gas price driven inflation.

- **Avoid penalising electricity generators.** Some electricity generators have also made significant profits as the price of electricity is aligned to high gas prices. Any new taxes on other energy generators should be equivalent to that on oil and gas, and crucially should include an investment allowance to speed up the delivery of cheaper wind and solar power, rather than providing incentives for further production of expensive gas.

- **Decouple gas and electricity prices.** Clean energy is the cheapest source of electricity and nine times cheaper than gas power. The government should trial a 'green power pool' in the steel industry to provide immediate access to cheap renewable power and test 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 with their energy costs.

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.** Grants and low cost loans should be targeted at those training and retraining in the low carbon power sector. Labour supply will also be boosted by further lowering the cost of retraining by extending capital allowances, like the super-deduction, to intangible capital like skills, and by restoring the Union Learning fund.

Planning: unblock planning 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) is just as popular locally as nationally.

- **Reform the National Planning Policy Framework.** This should be replaced 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 new fracking. This could be complemented by a net zero statutory duty for Ofgem to help prioritise building renewables in the right places.

- **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 accelerating the move away from fossil fuels, like new green energy. The government can support investor confidence with a Clean Power Plan, setting out the roadmap to a fully decarbonised power sector by 2035.

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