

OVERCOMING THE HASSLE FACTOR

Enabling consumers to take advantage of the energy efficiency opportunity

Despite the multiple benefits of energy efficient homes, many consumers are yet to invest in the efficiency of their properties. For those without the disposable income to do so, it is right that future supplier obligations to deliver energy efficiency measures are better targeted at fuel poor and low income households.

However, for those who are able to pay for energy efficiency improvements, there remain multiple barriers to taking action, including the 'hassle factor'. For some, this can be disruption in the home, while for others, it can be the time and effort it takes to find accurate information or appropriate finance. In order to overcome the hassle factor, it is important that government takes a holistic view of the customer journey, and establishes a refreshed policy framework that drives and facilitates consumer demand for energy efficiency measures.

Recent announcements on household energy efficiency have created a policy vacuum

The benefits of energy efficiency are well known, and retrofitting the UK's housing stock at scale would save households money on their energy bills, reduce carbon emissions, and ease pressure on the security of our energy supply. Moreover, deeper retrofitting of our existing homes can bring households the benefits of comfort, health and wellbeing. However, there are multiple barriers to bringing the UK's housing stock up to scratch, and the challenges of engaging consumers on this journey are long-standing.

Some of these challenges include driving consumer demand for energy efficiency measures, creating an environment in which consumers value energy efficient homes and making it simpler to action. Key to achieving this is encouraging households to consider energy efficiency at timely trigger points and providing consumers with accurate information and access to finance, at the right time.

However, previous policies designed to overcome these challenges have fallen short of expectations. Efforts including the Green Deal Home Improvement Fund (GDHIF), finance plans from the Green Deal Finance Company (GDFC) and building standards, such as zero carbon homes, were complex and short-lived. While it is right to review policies that need improvement, recent cuts to the GDHIF and GDFC, and the withdrawal of the zero carbon homes standard have generated uncertainty for households and businesses, and at present there is little clarity on the government's intentions going forward.

During previous periods of change in household energy efficiency policy, the supply chain has suffered from the instability, and it is important that government learns from these experiences. For example, the 2014 extension of the Energy Company Obligation (ECO) out to 2017, accompanied by a reduction of 33% to the primary carbon target, eased pressure on consumer bills at a time when affordability was a growing concern. However, it also caused significant instability in the market as well as hundreds of job losses across the supply chain. Therefore, government must put in place a policy framework that creates confidence in the sector and drives retrofit at scale in the able-to-pay market.

The government has an opportunity to put in place a holistic policy framework that will help consumers overcome the hassle factor

In the context of this household energy efficiency policy vacuum, the CBI has identified three key areas for action. As an urgent priority, government needs to provide detail on the successor to the Energy Company Obligation (ECO) announced at the Comprehensive Spending Review in November 2015, as the current phase comes to an end in March 2017. This is particularly important given concerns about a hiatus in the delivery of energy efficiency measures during the transition, and to ensure assistance is retained for those in fuel poverty. Most importantly, action needs to be taken to drive consumer demand for energy efficiency measures amongst those who are able to pay for their improvements, by establishing a range of incentives that nudge consumers into action, and a regulatory framework that can shape a sustainable and productive energy efficiency market. Finally, the government should seek to encourage access to information and finance at timely trigger points, minimising the hassle factor so that consumers may actively engage with the energy efficiency opportunity.

The first two of these priorities have been addressed in recent CBI publications *The future of the Energy Company Obligation*, and *Consumer demand: the key to a sustainable energy efficiency market*. This paper seeks to address the final priority and map out the opportunities to engage consumers in the owner-occupied sector and the private rented sector, which make up nearly 80% of the UK's housing stock.

Industry has an important role to play in helping consumers overcome the hassle factor. Industry can share best practice, use a common language that is accessible to consumers and work with government to establish a policy framework that encourages confidence amongst industry and investors. Significantly, industry can champion the range of benefits more energy efficient homes offer, from savings on energy bills, to the softer benefits such as warmth and comfort.

The right information and finance options must be on offer at timely points in the customer journey

Previous policies have attempted to encourage consumers to make their homes more energy efficient. In the instance of the Green Deal, the Home Improvement Fund (GDHIF) component acted to reduce the financial burden of the uptake of energy efficiency measures, while the Green Deal Finance Company sought to provide finance, and zero carbon homes standards targeted the efficiency of new builds. These policies fell short of their potential; the GDHIF generated a stop-start demand curve, and the complex plans offered by the GDFC proved unattractive to many consumers. Taken together these policies did not join up to address



ZERO CARBON HOMES

The zero carbon homes standards were designed to ensure new buildings were built to high energy efficiency standards, and required housebuilders to mitigate the carbon emissions the homes produced as a result of heating, hot water and fixed lighting.

the challenge of facilitating consumer action. Therefore, a refreshed policy framework should seek to provide consumers with the right information and access to finance at trigger points, and this should be underpinned by a range of fiscally neutral incentives and an appropriate regulatory framework that drives consumer demand.

In order to minimise the hassle factor for consumers, it is important to consider the journey a customer goes on when buying, improving or renting property. By taking a holistic view, opportunities to provide access to appropriate information and finance options can be identified and utilised, and links to related markets can be drawn. For example, according to the Office for National Statistics, spending on home alterations and improvements was £24.00 per week in 2014, compared with £17.70 in 2013. At a time where the Repairs, Maintenance and Improvements (RMI) market is accelerating, this is an important trigger point to help consumers engage in the energy efficiency agenda and that should not be overlooked.

In the following illustrations, we consider the range of points at which consumers could consider energy efficiency improvements and the prompts, information and finance needed to facilitate action.

THE JOURNEY: HOME-OWNER



PROPERTY SEARCH

- Estate agents can act as a source of information, encouraging buyers and sellers to consider Energy Performance Certificates (EPCs) ratings and running costs
- The requirement to present an EPC should be better enforced in order to be an effective informational tool
- Over the long-term, more comprehensive assessments of properties, with suggestions for staged or complete whole house retrofits could be useful informational tools for prospective buyers



MORTGAGE APPLICATION

- Lenders should have access to the right information to accurately incorporate energy costs into mortgage affordability calculations (see **Box 1**)
- Lenders and brokers could provide effective prompts to consumers to consider energy efficiency measures as a source of savings and this should be encouraged



VALUATION & SURVEY

- When having a property valued or surveyed for purchase, valuers and surveyors have an opportunity to act as a point of information
- Energy efficiency could be highlighted at this point as a possible home improvement and encouraged where repairs are required



PURCHASE AND PROPERTY TAX

- Variable Stamp Duty and/or council tax could act as an incentive to motivate households to value more energy efficient properties. This can be implemented in a fiscally neutral way, and should be considered as part of long-term property tax reforms



DECORATION & HOME IMPROVEMENTS

- Retailers and installers could act as a useful prompt to consumers to consider energy efficiency at the point of undertaking home improvements
- Government should explore how best to incentivise consumers to consider energy efficiency measures when undertaking home improvements (see **Box 2**)
- There is potential to extend 'consequential improvements' regulations to the domestic sector. Consumers would be required to improve the energy efficiency of their properties when certain works are undertaken, provided that these measures are proportionate to the work being carried out. Whilst previous governments have considered and decided against this, such regulation has the potential to drive significant demand if designed in an adequate and proportional manner
- Employers offering Salary Sacrifice schemes for energy efficiency measures can engage their employees with both information and access to finance for energy efficiency measures (see **Box 3**)



SELLING A PROPERTY

- Estate agents and valuers can act as an information point on energy efficiency, noting that improvements may increase the saleability of a property

THE JOURNEY: RENTER IN THE PRIVATE SECTOR



PROPERTY SEARCH

- Estate agents could act as a point of information for landlords and tenants looking to rent a property
- The Energy Performance Certificate and expected running costs of a property should be readily available to prospective tenants



MANAGED TENANCIES & LETTING REQUIREMENTS

- Landlords with managed tenancies could be prompted by the lettings agents to consider improvements to the energy efficiency of a property
- Landlords, estate agents and tenants should have access to information on Minimum Energy Efficiency Standards (MEES) in the private rented sector, and these regulations should be well enforced to be effective
- In light of the recent announcements regarding the Green Deal Finance Company, which as a result is not offering new finance plans, the ability of landlords to finance improvements should be considered. It is important that potential challenges with upfront costs are overcome in order that the MEES are met
- In EPC 'C' or above should be required for private rented sector properties by a deadline in the late 2020s, to provide a credible trajectory for landlords and the energy efficiency supply chain



PROPERTY TAXES

- Where tenants are responsible for paying council tax, variable rates that reflect the energy efficiency of the property could encourage tenants to place a premium on more efficient properties



REPAIRS

- At the point of either a distress purchase or planned improvements, there should be a conversation about energy efficiency improvements. For example, replacing boilers with more efficient models, replacing single-glazed windows with double-glazing etc.
- Landlords could be engaged when looking to make improvements to their properties between tenancies

BOX 1: MORTGAGES

Mortgage lenders already consider essential expenses such as energy costs as part of their affordability calculations. Considering energy costs that reflect the energy efficiency of a prospective property could provide a better picture of household expenditure. Lenders should be able to access the right information, and this could inform new mortgage product ideas.

New products would perhaps be most pertinent to first-time buyers who are most likely to borrow the maximum available from their mortgage providers.

BOX 2: HOME IMPROVEMENTS

A convenient time to engage consumers with the energy efficiency opportunity is when they are undertaking home improvements. Government should explore, in consultation with industry, how best to incentivise consumers to consider energy efficiency measures when undertaking home improvements.

BOX 3: SALARY SACRIFICE

This would operate in a similar manner to the Cycle-to-Work scheme, where the tax burden is removed by HM Treasury. Employers could choose to offer vouchers to employees to pay for energy efficiency measures for their homes, as part of their range of employee benefits. A suggested cap of £1000 would allow employees to pay for a range of measures, repaying the loan directly from their pay cheques. Although this would not cover more expensive measures, engaging consumers through a trusted intermediary, such as their employer, could encourage the uptake of measures and behavioural change both at home and in the workplace.

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