

## Written evidence submitted by E3G

### About E3G

E3G is an independent, not-for-profit climate change think tank. E3G has been engaging on issues of energy system decarbonisation for over 15 years and has expertise on areas including green and sustainable finance, energy efficiency and zero carbon heat, as well as political economy and governance. Evidence submitted reflects these areas of focus and specialisation. E3G is secretariat for the [Green Finance Institute's Coalition for the Energy Efficiency of Buildings](#) and helps coordinate the [Energy Efficiency Infrastructure Group](#).

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### Summary

- The Green Homes Grant was a long overdue intervention to decarbonise the UK's homes. Progress in this critical sector – 15% of the UK's total emissions – had stalled over the previous decade, and urgent action is needed to address this shortcoming and get on track for net zero.
- The Treasury and BEIS had misaligned objectives for the scheme, and this misalignment was never resolved. Economic stimulus and decarbonisation are both laudable and achievable ends for a public investment programme in energy efficiency and low-carbon heat, but the Treasury's ambition to deliver £1.5bn of "shovel-ready" investment in 6 months was unrealistic. All the Green Homes Grant's most serious shortcomings stemmed from the rushed design and implementation period of the policy, including the decision to choose ICF and its suspiciously cheap digital solution, which ultimately led to an overreliance on manual application processing and bureaucratic frustration for businesses and consumers.
- Previous flawed government policy in this sector has damaged industry confidence and the outcome of the Green Homes Grant has confirmed that short-term, boom-bust policy programmes send weak investment signals. Grant funding will be essential to grow the energy efficiency and low carbon heat markets and lower costs but should be surrounded by a long-term package of regulation and structural incentives.

### Design and objectives

A long-term and well-executed green home retrofits programme has much to offer as an economic programme, and support for all housing tenures – including the so-called "able to pay" – will be critical to pump-prime the energy efficiency and heat pump markets to get on track to meet the UK's climate targets. As the CCC has shown, little to no progress on decarbonising the UK's housing stock, which is responsible for around 15% of the UK's total emissions, has been made in the past decade. Rates of energy efficiency and low-carbon heat installations (the key measures needed to tackle buildings emissions) have fallen to well below government target levels.<sup>1</sup>

The Green Homes Grant was therefore well-intentioned. But it was ultimately let down by a rushed design process driven by overly ambitious short-term objectives.

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<sup>1</sup> <https://www.theccc.org.uk/wp-content/uploads/2020/12/Sector-summary-Buildings.pdf>

The scheme had two objectives: to quickly boost the economy at the height of the COVID-induced recession, and to make progress on the decarbonisation of the UK's homes. These two objectives clashed in important ways, as the NAO and others have recognised.<sup>2</sup>

There is little doubt that investing in energy efficiency as a national infrastructure priority could create very high numbers of jobs across the country – it is labour-intensive, highly localised work. The Energy Efficiency Infrastructure Group has calculated that investment in line with the CCC's balanced decarbonisation pathway could support 190,000 jobs in the supply chain to 2030 and induce 100,000 more in the wider economy.<sup>3</sup> However, this was not by any means a "shovel-ready" infrastructure project capable of rapidly absorbing £1.5bn.

The aim of the grant programme should have been to sustainably grow this critical industry and supply chain while accelerating housing decarbonisation, with public investment absorbed over several years and the programme's scope steadily increased to meet rising demand and capacity. This would have encouraged business investment in the medium term and, combined with a policy package of regulatory measures and structural incentives, would ultimately have driven down costs for consumers and reduced the level of grant funding needed in the longer term.<sup>4</sup>

The industry did respond in large numbers to the challenge of delivering the government's ambitious programme – the NAO shows that the number of installers registered on the scheme quadrupled between November and the completion of their fieldwork (248 to 1008).<sup>5</sup> A survey by the Insulation Assurance Authority found that those who did invest spent on average £87,000 getting set up for the scheme.<sup>6</sup> This was despite chronically low industry confidence in government following a stop-start approach to policy-making epitomised by the Green Deal, the coalition government's failed flagship subsidy-free energy efficiency policy which aimed to give homeowner access to finance repaid through savings on energy bills, but which suffered from very low uptake and was terminated early.<sup>7</sup>

Most of the scheme's now well-known difficulties – the poor choice of administrator, the bureaucratic complexity, the delays in processing applications for vouchers and delays in paying them out – can be traced to the rushed, 12-week design process.

Fortunately, this means that the Green Homes Grant should not be taken as an indictment of the possibility of successfully delivering green home retrofit grant programmes and policies. While the government should have been cautious given the problems experienced with the Green Deal and solar feed-in tariffs, there are models of success in the recent past. Through the Carbon Emissions Reduction Target and Community Energy Saving Programme, rates of insulation and other energy efficiency measures expanded rapidly, delivering carbon and energy bill savings across the country.<sup>8</sup> These rates collapsed after the withdrawal of the schemes, as the following CCC chart shows:<sup>9</sup>

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<sup>2</sup> <https://www.nao.org.uk/report/green-homes-grant/> see also

<https://www.instituteforgovernment.org.uk/blog/treasury-should-not-axe-green-homes-grant> and <https://www.instituteforgovernment.org.uk/blog/government-should-fix-flailing-green-homes-grant>

<sup>3</sup> [https://www.theeeig.co.uk/media/1109/eeig\\_2021-budget-and-spending-review\\_0721.pdf](https://www.theeeig.co.uk/media/1109/eeig_2021-budget-and-spending-review_0721.pdf)

<sup>4</sup> [https://www.theeeig.co.uk/media/1109/eeig\\_2021-budget-and-spending-review\\_0721.pdf](https://www.theeeig.co.uk/media/1109/eeig_2021-budget-and-spending-review_0721.pdf)

<sup>5</sup> <https://www.nao.org.uk/report/green-homes-grant/>

<sup>6</sup> [https://www.recc.org.uk/images/upload/news\\_282\\_Industry-Briefing-Note-GHGVSFinal230221.pdf](https://www.recc.org.uk/images/upload/news_282_Industry-Briefing-Note-GHGVSFinal230221.pdf)

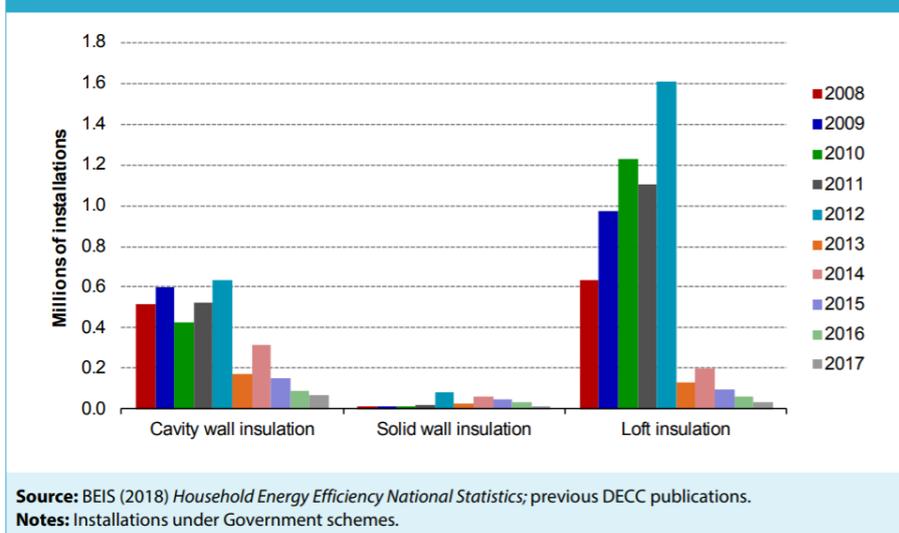
<sup>7</sup> <https://www.sciencedirect.com/science/article/abs/pii/S2214629616301803#abs0005>

<sup>8</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/350957/CERT\\_CESP\\_Evaluation\\_Exec\\_summary.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/350957/CERT_CESP_Evaluation_Exec_summary.pdf)

<sup>9</sup> <https://www.theccc.org.uk/publication/uk-housing-fit-for-the-future/>

**Figure 1.1.** Annual installation rates of loft insulation, cavity wall insulation and solid wall insulation (2008-2017)



With appropriate design and timescales, and a focus on durably delivering emissions reductions, government home decarbonisation policy can be successful. The key lesson for the government from this debacle is to set clear objectives and realistic timescales for delivery. This lesson must be quickly absorbed by the department as it develops the Clean Heat Grant, and any future grant support programme for energy efficiency.

#### Procurement of the IT contract

The NAO's reporting on the procurement of the Green Homes Grant has confirmed in illuminating detail what many in the industry already suspected – that ICF were failing to meet their contractual obligations, and that this was one of the reasons the decision was taken to terminate the scheme early.

Once the decision had been made to produce the entire scheme in 12-weeks, it is likely that a framework contract was essential. The critical procurement failure appears to have been the Department's decision not to further investigate why ICF's digital solution was proposed to cost less than half that of the second cheapest bidder.<sup>10</sup> The need to continue manual application processing for far longer than had been anticipated is the key reason that consumer and installer experiences with the voucher scheme were so frequently frustrating – although administrative complexity in the application itself may also have played a role. By contrast, the management of the Public Sector Decarbonisation Scheme by SALIX has been widely praised by industry groups.

#### Results to date

The £256m anticipated total spend and 47,500 upgraded homes clearly falls well short of government expectations.<sup>11</sup> Unfortunately, the results and impact of this scheme extend beyond the disappointing practical results.

#### **Impacts on SMEs**

<sup>10</sup> <https://www.nao.org.uk/report/green-homes-grant/>

<sup>11</sup> <https://www.nao.org.uk/report/green-homes-grant/>

As discussed above, the UK's retrofit industry has been damaged by previous Government cuts to energy efficiency spending from 2015 – the number of green home installations halved in one year following the end of a home improvement cash-back scheme in 2016, and broader changes in policy have resulted in the number of energy efficiency measures being installed per year dropping from around 700,000 in 2013/2014 to just under 200,000 in 2018/2019.<sup>12</sup> Despite this history, many SMEs invested heavily in the Green Homes Grant, and have been badly affected by its withdrawal.

SMEs are not necessarily well-placed to benefit from increased Local Authority procurement, as schemes like the Green Homes Grant Local Authority Delivery (LAD) scheme and Energy Company Obligation (ECO) are generally run by larger suppliers. Much of the work is sub-contracted out, but smaller SMEs who work under ECO managing agents are often not on LAD procurement frameworks and are likely to struggle to get on them in a short space of time. The scale of procurement may also be an issue, with large funding pots favouring more geographically and technologically spread companies. The voucher scheme, by contrast, appealed to new market entrants involved in building repairs and restoration – the kind of firms that the government hopes will help kickstart jobs growth. These firms are likely to find it particularly difficult to quickly match complex procurement framework standards. As such, the withdrawal of the voucher scheme was a particular blow for ambitions to grow this important sector of the market.

### **Able-to-pay market**

With the demise of the voucher scheme, there is now a funding and policy gap for the 'able-to-pay' market. At 62% of the UK's 27.2 million households in 2017, owner-occupiers comprise the largest housing tenure, and therefore the largest potential market (by volume) for financing home decarbonisation and climate resilience.<sup>13</sup> With the government committed to consult on introducing minimum energy performance standards for owner occupied homes, it will be essential that they consider the full suite of incentives and levers for behavioural change in forthcoming policy-making to give those homeowners not classified as "low-income" the full support they need.

### **Support for low-income homes**

While the government has expanded the LAD element of the Green Homes Grant and committed funds to decarbonise social housing, less than half of local authorities in England that are eligible for LAD have bid and/or received any resulting funding. Low-income households in these areas will now have no access to any of the funding for energy saving measures, aside from the Energy Company Obligation which provides much more limited support.<sup>14</sup>

### Next steps

There are a number of critical next steps which must be taken to put the UK back on track to decarbonise the building stock, support jobs and regain climate leadership status ahead of COP 26. The following proposals will help regain industry confidence, building the supply chains and market needed to achieve climate targets.

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<sup>12</sup> <https://www.gov.uk/government/statistics/household-energy-efficiency-statistics-headline-release-january-2021>

<sup>13</sup>

<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2017>

<sup>14</sup> <https://www.nea.org.uk/news/the-green-home-grants-demise-must-prompt-urgent-action-to-help-the-poorest-households/>

## **A successor to the Green Homes Grant scheme and incentives confirmed at the Spending Review**

Learning and applying lessons from the GHG, Government needs to design and implement a successor grant scheme which serves the able-to-pay market. This will involve working closely with industry and Local Authorities to assure the scheme's effectiveness, ensuring a role for SMEs in design and delivery. The Government should signal its intention to do this immediately, showcasing its commitment to a green recovery in the run up to COP 26, with the full package announced at the Spending Review later this year. The EEIG estimates that £17.8bn total public investment (matched by private investment) is needed to the end of this Parliament, with £12.7bn for energy efficiency measures and £5.1bn for heat pumps. Of this public investment, £6.1bn is already committed, leaving a gap of £11.7bn to fill through the spending review. Delivering on manifesto commitments for the Home Upgrades Grant and the Social Housing Decarbonisation fund can fill £2.35bn of this gap to 2025<sup>15</sup>. The Clean Heat Grant, which the government consulted on in February 2021, is the natural place for the government to scale up an ambitious new public investment package – funded through HM Treasury's sovereign green bonds – although it is essential that energy efficiency is not neglected.<sup>16</sup>

As well as grants, there is a role for structural incentives for the 'able-to-pay' market, such as Green Stamp Duty and 0% VAT for purchases related to green home retrofits. The latter would be even more effective if applied on all refurbishment – for example new kitchens and bathrooms, and loft conversions – but with the 0% rate only applying when a homeowner upgrades the energy performance of their home at the same time. This would hugely increase demand for energy efficiency and low-carbon heating measures.

Taken together, a combination of grants and structural incentives would pump-prime the market to get on track for climate targets, leveraging additional private finance – for which the Green Finance Institute's Coalition for the Energy Efficiency of Buildings has been developing new financial products and data services.

## **A coherent long-term regulatory, governance and policy framework to create economies of scale**

The forthcoming Heat & Buildings Strategy must set out the Government's vision and roadmap for the UK to rapidly decarbonise homes across the country, through new targets, regulations and strategies for each tenure. This will provide the long-term certainty for industry, local bodies and citizens to plan and invest. In order to achieve widespread uptake of low carbon heating technologies and energy efficiency measures, a systems perspective is needed, whereby all relevant actors are understood and motivated to consider coordinated actions – including financial institutions, the construction industry, local government, owner-occupiers, landlords and tenants.

## **The role of the UK Infrastructure Bank**

The newly announced UK Infrastructure Bank should provide blended finance - the combination of public and private finance, maximising the impact of public spending while helping to de-risk private finance – for individuals and communities, as well as 0% interest loans, learning from Germany's national infrastructure bank KfW. Investments in energy efficiency measures by KfW motivate building owners to borrow and spend €6, for every €1 invested.<sup>17</sup> The federal government nearly recoups its outlay through increased VAT revenue alone. The UK Infrastructure Bank can also

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<sup>15</sup> [https://www.theeeig.co.uk/media/1109/eeig\\_2021-budget-and-spending-review\\_0721.pdf](https://www.theeeig.co.uk/media/1109/eeig_2021-budget-and-spending-review_0721.pdf)

<sup>16</sup> <https://www.gov.uk/government/consultations/clean-heat-grant-further-policy-design-proposals>

<sup>17</sup> <https://committees.parliament.uk/writtenevidence/10210/html/>

identify, develop and standardise investment propositions, drive investment flows to regions that need it most, and play a critical role in the governance of long-term decarbonisation strategies, working closely with Local Authorities.

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