



House of Commons
Energy and Climate Change
Committee

**Home energy efficiency
and demand reduction:
Government Response
to the Committee's
Fourth Report of
Session 2015–16**

**Third Special Report of
Session 2016–17**

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The Energy and Climate Change Committee

The Energy and Climate Change Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Energy and Climate Change and associated public bodies.

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Publication

Committee reports are published on the Committee's website at www.parliament.uk/ecc and in print by Order of the House.

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Committee staff

The current staff of the Committee are Dr Farrah Bhatti (Clerk), Gavin O'Leary (Second Clerk), Dr Marion Ferrat (Committee Specialist), Stephen Habberley (Committee Specialist), Joshua Rhodes (Committee Specialist), Jamie Mordue (Senior Committee Assistant), Henry Ayi-Hyde (Committee Support Assistant), and Nick Davies (Media Officer).

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Special Report

On 12 March 2016 the Energy and Climate Change Committee published its Fourth Report of Session 2015–16, Home energy efficiency and demand reduction (HC 552). On 4 July 2016 the Committee received the Government's response to the Report. It is appended below.

Appendix: Government response

Introduction

1. The Government welcomes the Committee's continued interest in household energy efficiency and demand reduction. Improving energy efficiency brings a range of benefits to UK households, including lower energy bills, improved comfort and health and well-being, as well as helping to tackle fuel poverty and reduce carbon emissions.
2. That is why this Government has already taken action to reform its approach to energy efficiency; we are working to give consumers greater control over their energy use and have committed to ensuring that every home and business in the country is offered a smart meter by the end of 2020. This will help consumers identify where they may be wasting energy—helping them to lower bills.
3. We are also reforming the Energy Company Obligation and the Warm Home Discount to take on board lessons from previous policies and to make them simpler and more effective. Importantly, we are focussing them on those who need help the most. We believe that the ECO obligation is the best way to tackle fuel poverty.
4. The Government's view is that there is a need for a policy framework that is based less on subsidy. This will require more market-led approaches, underpinned by clear advice and robust standards. Fundamental to that is ensuring consumers have confidence in measures they install. We are therefore working with industry, through Peter Bonfield's Review, to ensure that consumers who carry out improvements to their homes will be properly supported and protected through a robust quality and standards framework. We expect the review's report, setting out Peter Bonfield's recommendations, to be published shortly.

Government response to the Committee's conclusions and recommendations

Recommendation 1: We recommend that DECC reconsiders its decision to use a supplier obligation to tackle fuel poverty. As a consequence the Government must re-evaluate what the best approach is to tackle fuel poverty. In order to do this, the Department must first publish the evidence which was used to determine that a supplier obligation is, in its own words, the "best mechanism" for tackling fuel poverty. This evidence must be open to public scrutiny. (Paragraph 47)

DECC should consult on alternative approaches to tackling the serious and urgent problem of fuel poverty. DECC must give particular attention throughout this consultation to addressing how to tackle fuel poverty for those living in rural fuel poor homes. (Paragraph 48)

Accurate, accessible data on property characteristics, energy use and income are the key to tackling fuel poverty. Such data would also help drive a more targeted approach to delivering energy efficiency measures through various policies. We recommend that the Department assess what legislative changes would be needed to improve wide-scale access to- and sharing of data. DECC must provide us with details on what specific changes would need to be made to establish a comprehensive national database to support the delivery of energy efficiency measures. In its response, the Department should set out a timetable for these changes. (Paragraph 49)

5. As part of his independent review of fuel poverty, Professor John Hills looked at the different approaches to tackling fuel poverty (as defined by his new measure of fuel poverty, the Low Income High Cost indicator) to see which would be most effective.¹ He concluded that a supplier obligation which was targeted on the fuel poor was the most cost effective way of making progress in tackling the problem including when compared to Government funded schemes.

6. The Government's fuel poverty strategy made clear that we should focus any future energy efficiency subsidy where it can make most impact in order to ensure that we are helping those most in need and least able to pay. The Government's view is that doing so will also begin to move the market away from a dependence on subsidy which, in the Government's view, can undermine the value consumers may place on energy efficiency measures. It can also create uncertainty for businesses if they are reliant on government subsidies which are subject to change.

7. Our statutory fuel poverty target is ambitious—requiring energy efficiency at scale. In our experience, supplier obligations have delivered energy efficiency at scale most cost-effectively over a period of more than 20 years. As an illustration of what a fuel-poverty focused obligation can achieve, we estimate that the measures installed under the Affordable Warmth part of ECO between January 2013 and December 2015 will deliver around £6.2 billion notional lifetime bill savings.

8. We are mindful that focusing the obligation on fuel poor households will require suppliers to adapt their current practices. That is why we are proposing a one year transition, before moving to a fuel poverty focused obligation fully consistent with the recommendation of the Hills review, from 2018.

9. The Hills Review also argued that upgrading the energy efficiency of housing is a gradual process, and other interventions (such as bill rebates) are necessary to support those struggling with their energy bills. That is why we continue to have a range of measures in place to tackle fuel poverty, including the Warm Home Discount, which the Government has announced will be extended until 2020–21. In April we consulted on improvements to the Warm Home Discount which will continue to deliver £140 energy bill rebates to over 2.1 million low income and vulnerable households annually. The response to the consultation will be published very soon.

¹ John Hills, [Getting the measure of fuel poverty: Final Report of the Fuel Poverty Review](#), March 2012

10. We agree with the Committee's assessment that accurate and accessible data on property characteristics, energy use and income could play a key role in tackling fuel poverty. To address this, DECC has been working closely with the Cabinet Office and other government departments to propose legislation that will enable this to happen. This proposed legislation has been developed over a number of months with considerable input from a wide range of stakeholders through an open policy making process.

11. The proposed legislation includes enabling HMRC tax credit data and property characteristics data held by the Valuation Office Agency and DECC to be shared with DWP. This process would be governed by strict codes of practice, as well as the Data Protection Act, to ensure that consumers' data is protected. This information would enable DWP to identify those households in fuel poverty, looking at both the "low income" and the "high costs" dimensions of the problem as identified by the Hills review. The proposal also includes provisions for DWP to share information on fuel poor households with local authorities and energy companies, strictly for the purposes of supporting those in fuel poverty.

12. The Cabinet Office consultation on this proposed legislation closed on 22 April 2016. Subject to the outcome of the consultation and subject to Parliament, it is intended that Government will explore policy options that use the proposed powers to improve fuel poverty schemes.

Recommendation 2: In the light of industry concerns regarding a carefully managed transition period, and our earlier recommendation that DECC reconsiders its decision to use a supplier obligation to tackle fuel poverty, we recommend the following:

- **ECO, in its current form, should be extended until March 2018 in order to provide stability to the supply chain while a new supplier obligation is developed.**
- **A transition period should be established between the end of the Energy Company Obligation and the new supplier obligation—this should run from April 2018 to March 2019 as a minimum—with the new obligation commencing no earlier than April 2019.**
- **The Department must immediately launch a consultation on the design of the new supplier obligation to be introduced in 2019. (Paragraph 53)**

13. It is our view that ECO has been a success. It has installed over 1.7 million energy efficiency measures in around 1.4 million properties. Over their lifetime, these measures are expected to cut the heating costs faced by low-income and vulnerable households by over £6 billion, and save 24 million tonnes of carbon dioxide.

14. We agree with the Committee that a transitional period is important, and the Government published a consultation on 29 January on proposals to extend the current ECO until March 2018. We looked closely at the Committee's comments and recommendations in preparing the consultation document.

15. This extension provides an opportunity to improve the scheme and reduce administrative burden. Further proposals should ensure the scheme is better targeted

towards tackling the root cause of fuel poverty, ensuring that available subsidy is directed at those who need it most. These proposals have been developed following engagement with a wide range of stakeholders.

16. We do not believe that we should wait until 2019. Taking action now will mean that improvements can start taking effect and fuel poor households can start to realise the benefits sooner, from April 2017. At the same time, we will be proposing that suppliers have this further year to adjust to the new fuel poverty focus. The Government appreciates the importance of ensuring costs to energy bill payers from Government schemes are kept as low as possible.

17. Any changes made will ensure the ECO extension is a transition to the long term reformed supplier obligation. This will begin in 2018 and run until 2022 and will provide long term certainty for industry. We intend to consult on this reformed obligation in 2017.

Recommendation 3: The establishment of the infrastructure behind pay-as-you-save based lending is an important legacy of the Green Deal. This infrastructure could play an important role in facilitating future energy efficiency measures in the ‘able-to-pay’ market. We recommend that the Government carries out an assessment of the value of reinstating a pay-as-you-save mechanism based on the GDFC infrastructure. (Paragraph 64)

DECC must specifically detail what assistance and tools will be available to landlords, some of whom will have to make considerable and costly improvements to their properties in order to comply with the minimum energy efficiency standards (MEES) to be introduced in April 2018. (Paragraph 65)

18. The Committee is right to point out that the pay-as-you-save infrastructure has the potential to play an important future role. It is important to be clear that the framework remains in place now, and would not need to be reinstated. There is nothing to prevent private investors making use of the framework as it stands, and we are pleased there has been active interest from the private sector in making use of the Pay As You Save framework and bringing in new investment.

19. The minimum energy efficiency standards (MEES) for the private rented sector will take effect from 1st April 2018. From this date, private domestic and non-domestic landlords will need to ensure that their properties reach at least an EPC rating of E before granting a new tenancy or extending/renewing existing tenancies. However, for domestic properties, this only applies if the improvements required to reach this EPC rating could be financed at no cost to the landlord. These requirements will apply to all privately rented properties—even where there has been no change in the tenancy—from April 2020 in the domestic sector, and from April 2023 in the non-domestic sector.

20. The Department is currently tendering a contract to build and manage a private rented sector Exemptions Register—a database which will allow landlords of F and G rated property to register any prescribed exemptions, and which will assist local authorities in their enforcement duties.

Recommendation 4: We welcome the fact that the Department is looking into using varied stamp duty and council tax rates as levers to incentivise households to undertake energy efficiency improvements. We urge the Department to work with the

Treasury to develop straightforward policy options and publish an impact assessment of these options. Complex policies must not get in the way of delivering energy efficiency objectives. The Government must ensure that support mechanisms are in place to ensure that vulnerable households and fuel-poor consumers are not negatively impacted from the introduction of such incentives. (Paragraph 68)

21. Lessons learned from the Green Deal suggest that non-fuel poor householders require a mix of complementary policy measures to drive demand and enable action. We are considering a range of possible policy approaches to help drive the take up of low carbon heat and energy efficiency in non-fuel poor households and are seeking input and expertise from a diverse group of stakeholders. As we develop our approach in this area it is critical that we consider the impact of any policy proposals on vulnerable households and fuel poverty targets.

Recommendation 5: DECC should bring together health services, charities, housing developers, supply chain representatives, industry groups and consumers to form a group to consult with and determine the most effective way to communicate the benefits of energy efficiency to ‘able-to-pay’ households. The Department should also commission, and publish, research to help it understand behaviour change in energy efficiency and demand reduction. This will help to identify how to use the right message at the right points of intervention. We also recommend that the Department works with industry to develop and publicise ‘roadmaps’ which set out and make clear what steps individual households can take to improve their energy efficiency. (Paragraph 75)

22. We have been working closely with a range of stakeholders, including health services, charities, housing developers, supply chain representatives, industry groups and consumers to identify lessons from the past and test ideas for a long-term, coherent and affordable policy approach. To support the Department in testing and refining policies during their early formative stage, DECC established a Consumer Panel to rapidly generate customer insights. The research agency TNS-BMRB was appointed in autumn 2015 to deliver this service and insights have been generated including on household energy efficiency.

23. DECC continues to make use of the evidence already gathered about energy efficiency installations and energy related behaviours. Examples include evaluations of the Green Deal, ECO and Renewable Heat Incentive, the public attitudes tracker, and bespoke behaviour change research, for example see: *What Works in Changing Energy-Using Behaviours in the Home?*² DECC has also undertaken and published behavioural trials on interventions aiming to reduce energy consumption through advice on heating controls³ and through more salient energy labelling.⁴

24. The Department is also clear of the importance of ensuring that individuals have clear information on the steps they need to take to improve the energy efficiency of their homes. In July 2015, the Secretaries of State for DECC and DCLG commissioned Dr Peter Bonfield to chair an Independent Review of Consumer Advice and Protection, Standards and Enforcement for UK Home Energy Efficiency and Renewable Energy Measures. A key emerging recommendation from the Review, which we expect to be published

² DECC, [What Works in Changing Energy Using Behaviours in the Home? A Rapid Evidence Assessment](#), November 2012

³ DECC, [Advice on how to use heating controls: Evaluation of a trial in Newcastle](#), September 2014

⁴ DECC, [Evaluations of the DECC/John Lewis energy labelling trial](#), September 2014

shortly, focusses on improving consumer advice and guidance and considering whether Government or the supply chain is best placed and has the appropriate tools to deliver this, learning from and building on existing models such as the Energy Saving Advice Service.

25. The Government has a manifesto commitment to ensure that every home and business in the country is offered a smart meter by the end of 2020, delivered as cost effectively as possible. Domestic customers will be offered an In-Home Display enabling them to see what energy they are using and how much it is costing. This will put them in control and avoid wasting energy and money. Furthermore, as part of the installation visit, installers must demonstrate the smart metering system, including the In-Home Display, and offer energy efficiency advice, including highlighting sources of further information. DECC will be publishing a 'toolkit' of guidance on how best to engage domestic consumers in energy efficiency during their smart meter installation later this year. This toolkit has been developed through a multi-stage research study involving consumers, installers, suppliers and other experts and provides guidance and strategies on how to tailor energy efficiency advice to meet the varying needs of different customer groups.

26. DECC acknowledges that there are a number of promising new areas of technology or methods that could act as alternatives to IHDs. However, there is a lack of robust, independent and GB-based evidence on their efficacy, including whether they can deliver comparable consumer energy savings to IHDs. To help gather this evidence, we have established a process allowing suppliers to apply to the Secretary of State for a derogation from the requirement to offer an IHD, in order to conduct trials of alternatives. To support suppliers in developing their applications, we have published guidance that outlines DECC's expectations for high quality trials of products at different stages of development, and at varying scales. Evidence from these trials will be used to inform considerations on whether the IHD mandate remains the best way to ensure consumers can engage with their energy consumption data.

27. The findings around levels of energy consumption reduction from the Early Learning Project, published in March 2015, are consistent with DECC's steady-state projections for the main roll-out. Evidence suggests that larger energy savings are achievable; it is realistic to expect energy savings of three per cent, provided engagement is effective, and larger savings are feasible in the future.

Recommendation 6: We recommend that the Department develops a national framework to facilitate and support locally-led delivery of energy efficiency. Within this framework, the Government should set out good practise and a guide to different ways in which local authorities can work in partnership with other key players (charities, health services, energy suppliers and other relevant organisations) to deliver energy efficiency measures. Examples of good practice include HEEPS in Scotland and the use of 'warm zones'. (Paragraph 84)

28. DECC agrees that local stakeholders can play a key role in developing and delivering a range of policy options on energy efficiency. DECC is already working with local authorities and Local Enterprise Partnerships, including in the context of devolution, to develop a range of policy options best suited to local areas and to support access to EU and other funding sources, and have so far included energy or local energy efficiency schemes in devolution agreements with ten local authorities.

29. The Department is also working with the Community Energy Sector to build capacity and support the sector to develop. This has included supporting the Community Shares Unit with DCLG to help community groups issue share offers and raise investment capital; developing a community energy information hub now managed by Community Energy England and Developing best practice in local authority support for community energy in partnership with Bristol City Council, with a conference planned in 2016.

Recommendation 7: We recommended in our recent report on ‘Investor confidence in the UK energy sector’ that the National Infrastructure Commission must consider the infrastructure requirements of meeting the UK’s carbon budgets and long-term legally binding carbon reduction targets. Energy efficiency will be a crucial part of the mix. The Government and the National Infrastructure Commission should assess the potential benefits of designating energy efficiency as a national infrastructure priority. (Paragraph 89)

30. As set out in the Government’s response to the consultation on the National Infrastructure Commission, the Commission will need to ensure its recommendations are consistent with the UK’s long term target to reduce emissions by at least 80% on 1990 levels by 2050 as well as the UK’s system of carbon budgets (up to and including the fifth carbon budget that will shortly be legislated on). DECC will continue to work with the Commission as it prepares its National Infrastructure Assessment. As per the Commission’s consultation document, this will examine the future of heating and important role that increasing energy efficiency could potentially play.

Recommendation 8: We recommend that the Inter-Ministerial Group on Clean Growth is re-cast as a formal Cabinet Committee. Its membership must be published. We recommend that the Secretary of State for Energy and Climate Change is Chair and that it should include representatives from the Department of Health, Department of Communities and Local Government, Department of Work and Pensions, Department for Business, Innovation and Skills, Department for Transport, Department of Environment, Food & Rural Affairs and the Treasury. (Paragraph 93)

31. The Inter-Ministerial Group (IMG) on Clean Growth considers a range of issues relating to air quality and decarbonisation spanning across a number of different departments. Due to its cross-cutting nature, the group is chaired by the Chancellor of the Duchy of Lancaster. The group operates flexibly—meeting as and when needed and discussing a wide range of topics relating to Clean Growth. Attendance at meetings is tailored to the specific issue at hand.

32. Casting the group as an IMG, rather than a formal Cabinet committee, provides the appropriate level of flexibility for the group to operate in this way. The group’s members include ministers and officials from the relevant departments, including Defra, DECC, DfT, DCLG and BIS and HMT. To protect the integrity of the policy making process we do not comment on specific membership or the frequency and timing of meetings.

Alongside this, we recommend that the Government sets up an Implementation Taskforce for energy efficiency. We recommend that representatives from the same Departments outlined above are members of this Taskforce, which should also be chaired by the Secretary of State for Energy and Climate Change. The terms of reference for the Taskforce should be: Driving energy efficiency across the UK as part of a wider

strategy to tackling the energy trilemma. The Taskforce should publically report, on an annual basis, the Government's progress towards achieving a step-change in driving energy efficiency across the UK. (Paragraph 97)

33. The Government's Emissions Reduction Plan will set out policies and proposals to meet the UK's carbon budgets, including on energy efficiency in homes and non-domestic buildings. Our working assumption is that this will be published by the end of the 2016. We already publish annual responses to the Committee on Climate Change's progress reports, which includes progress on driving energy efficiency.

34. The IMG on Clean Growth looks at decarbonisation across all sectors of the economy, including considering the role that energy efficiency in homes and non-domestic buildings can play in helping the UK to meet its carbon targets. The group has a flexible cross-departmental membership, including the Departments for Communities and Local Government and Energy and Climate Change.

35. As well as attending the IMG, Ministers from these departments meet regularly to discuss a range of issues, including energy efficiency policy. Specific decisions relating to energy efficiency in homes and non-domestic buildings are considered by the Economic and Domestic Affairs Cabinet Committee, which is chaired by the Chancellor.

Recommendation 9: Zero carbon homes was an ambitious policy which was a positive step towards ensuring that all new homes are energy efficient. Whilst we recognise the Government's desire to stimulate housebuilding, the unexpected decision to end the policy was disappointing to many businesses that were ready to deliver the Government's original objectives. The decision damaged confidence in the low carbon economy and will lock in the requirement for future wide-scale energy efficiency measures and costly retrofits. We recommend that the Government reinstates the zero carbon homes policy or sets out a similar policy that will ensure that new homes generate no net carbon emissions. (Paragraph 99)

36. The Government recognises the important contribution that the energy efficiency of buildings makes to lowering bills and reducing the effects of climate change. However, we must ensure that this is done in a way that recognises the long-term challenge the UK faces to substantially increase housing supply.

37. The zero carbon policy decision announced in the Productivity Plan only ruled out the off-site carbon off-setting scheme ('allowable solutions') which would not have benefitted the home owner and would have been a tax on housing development. It does not rule out further increases to the energy performance standards of buildings. However, it recognises current standards introduced under the 2013 regulations which came into effect in April 2014 need time to be established and we have said we will not increase standards again in 2016 but will keep them under review. For homes in England, the 2013 Regulations represented a 6% improvement on the carbon emissions standard in the 2010 Regulations, with a mandatory energy efficiency requirement. For non-domestic buildings in England, there was a 9% improvement in the carbon compliance level in the 2013 Regulations compared to the 2010 Regulations, again with mandatory energy efficiency backstops.

38. Current standards will be assessed to see if they are ‘cost optimal’—cost-optimal being the best energy performance level that results in the lowest cost over the economic lifecycle of the building—or where there are areas where there is scope to strengthen standards. We expect to start this work shortly.