

ECCC inquiry into home energy efficiency

October 2015: Written submission from Citizens
Advice



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Introduction

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. Since 1 April 2014, Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain.

The service aims:

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 400 independent advice centres that provide free, impartial advice from more than 3,500 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups. In 2012/13 the Citizens Advice service in England and Wales advised 2.3 million people on 6.6 million problems.

Since April 2012 we have also operated the Citizens Advice Consumer Service, formerly run as Consumer Direct by the OFT. This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

In the last four quarters Citizens Advice Bureaux have dealt with 84,000 enquiries about fuel debt, while hits to the energy section of our website doubled in October and November, the period during which suppliers announced their price increases last year. Calls to the Citizens Advice Consumer Helpline seeking advice about energy doubled in the same period.

Why have previous approaches failed?

Overview

The Green Deal and ECO represented a major break from previous energy efficiency policies. The Green Deal was introduced to bring about a massive expansion of the energy efficiency market fueled by consumer demand for new products. The success of the Green Deal model depended on its ability to inspire householders to invest their own money in energy efficiency. It failed to do this. The complexity of Green Deal also contributed to poor consumer engagement with the policy.

As a result of the Green Deal's failure, Government-led schemes have continued to fund the vast majority of energy efficiency work, but at a greatly reduced levels , with the 2014 ECO reforms further reducing the achievements of the Government policy.

We look in more detail at how the policy failed in the following three areas:

- Driving action
- Delivering confidence and trust
- Tackling fuel poverty through the supplier obligation

Driving action

The Green Deal focused on removing barriers to take up, notably upfront cost and lack of trust. This would only lead to action where consumers already aware of the benefits of investing in these measures and motivated to install them. The Green Deal made no concerted or convincing effort to encourage householders who were not already considering installing energy efficiency measures to do so.

Before the launch of the Green Deal, we surveyed consumers about their appetite for home energy efficiency improvements. Only a small minority were put off by a

lack of upfront finance. Other issues, like lack of awareness, were much more significant¹.

DECC's own research showed the introduction of the Green Deal and ECO failed to impact the proportion of consumers considering energy saving measures, despite 84 per cent of respondents being concerned about steep rises in energy prices².

Alongside Green Deal finance, the Government made some efforts to increase market demand for measures. However, these were either ineffective or unsustainable, and do not appear to have reflected a coherent strategy.

The first of these, the Green Deal cashback, had very low take up and mainly supported new boilers, which were likely to have been bought anyway. In part this can be attributed to their administrative complexity, but more fundamentally the incentives did not provide a compelling driver in the context of low consumer awareness of, and interest in, energy efficiency improvements. The Green Deal Home Improvement Fund addressed these shortcomings and proved popular, but was excessively generous and unsustainable for government. The administration of the fund and its rapid exhaustion caused frustration for consumers and businesses, potentially undermining engagement in future schemes³.

Meanwhile, opportunities to provide more effective and enduring incentives through regulation were not taken. Proposals to require householders extending their home to install energy efficiency measures (consequential improvements) which both government and industry estimated would contribute significantly to demand, were not pursued. The Private Rental Sector regulations, established by the Energy Act 2011, are yet to come into force, so were unable to support Green Deal and ECO. However, they appear unlikely to deliver on their potential, due to caveats in the legislation⁴.

Even where consumers were interested in installing measures, Green Deal did not provide the accessible finance it set out to. 54 per cent of consumers who did not progress following a Green Deal assessment cited finance as a barrier⁵. Research has suggested consumers' interest in loans for energy efficiency measures falls quickly as interest rates rise⁶. Although Green Deal interest rates were broadly competitive, they did not necessarily meet consumer needs: without support from

¹ Consumer Focus (2012) Green Deal watching brief: written evidence submitted by Consumer Focus (GD 22)

<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmenergy/writev/greendeal/m22.htm>

² Source: DECC, 2013, Public Attitudes

Tracker https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254725/summary_wave_7_findings_decc_public_attitudes_tracker.pdf

³ Pye Tait Consulting (2015) *Research into quality assurance in energy efficiency and low carbon schemes in the domestic market*, Citizens Advice

⁴ Citizens Advice (2014) Response to the Consultation on the Private Rented Sector Energy Efficiency Regulations (Domestic)

⁵ DECC (2014) *Green Deal Assessments Research*

⁶ Great British Refurb Campaign (2010) *Green Deal – public appetite market research*

the ECO, they were unable to fully fund extensive measures like solid wall insulation; yet for cheaper measures like cavity wall insulation, taking a Green Deal finance loan was unlikely to be an attractive option.

Delivering consumer confidence and trust

Another stated aim where the Green Deal fell short was building consumer confidence and trust in the energy efficiency sector.

Consumer engagement with Green Deal and ECO was hampered by lack of clear messaging from government and other stakeholders. Government communication were at times misleading and some conflated Green Deal finance, ECO, and energy efficiency measures in general, despite their different offers and different levels of consumer protection. This comes within a confusing wider advice and redress landscape which energy consumers must navigate⁷.

Consumer contacts to Citizens Advice have showed consumer confusion about the Green Deal and between the Green Deal and ECO. We have also seen significant numbers of cases relating to mis-selling and potential scams using the name of the Green Deal⁸. If it increases consumer confusion, poor communication can create a fertile environment for subsequent mis-selling and and detriment.

Consumer trust may also have been undermined by ongoing concerns about quality of energy efficiency work.

Research by both Which? and DECC has raised concerns about the technical quality of assessments⁹, one of a wider range of concerns emanating from industry¹⁰.

Calls to our consumer helpline show the impact on consumers where quality standards are not met.

We hear from consumers who have suffered from damp in their property where cavity wall insulation has either been installed badly, or should not have been installed in the first place. This can damage furniture, wallpaper and, in some cases,

⁷ Citizens Advice (2015) Knowing Who Can Help
<https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/knowning-who-can-help/>

⁸ Citizens Advice (2014) Green Deal watching brief part 2: written evidence submitted by Citizens Advice
<http://data.parliament.uk/writtenevidence/committeeevidence.svc/EvidenceDocument/Energy-and-Climate-Change/Green-Deal-watching-brief-part-2/written/6169.html>

⁹ Consumer Futures (2014) Green Deal watching brief part 2: Written evidence submitted by Consumer Futures (GRE0026)
data.parliament.uk/writtenevidence/committeeevidence.svc/EvidenceDocument/Energy-and-Climate-Change/Green-Deal-watching-brief-part-2/written/6187.html#_ftnref17

¹⁰ Pye Tait Consulting (2015) *Research into quality assurance in energy efficiency and low carbon schemes in the domestic market*, Citizens Advice

the fabric of the building itself. This is not just costly, but can also cause considerable distress and disruption for householder on the receiving end.

More recently, we have started to hear from consumers who have experienced poor quality installation of solid wall insulation, which can also have damaging consequences.

While these cases may be relatively small in number, they are serious for the householders involved and for the impact they have on consumer trust and engagement. Moreover, if assessment and installation standards fall short, energy and carbon savings - the fundamental rationale for these policies - are also at risk.

Tackling fuel poverty through the supplier obligation

Without significant domestic consumer demand, energy efficiency work has been driven, at least in England, by the Energy Company Obligation.

At its initial level, ECO represented a significant reduction in resources on previous years, given the ending of Warm Front, a publically-funded fuel poverty programme.

Even if the Green Deal and ECO had fulfilled the predictions of their Impact Assessment, they would have failed to provide the carbon emission or bill cost reductions required of them. However, ECO itself was cut in 2014, further reducing its carbon and energy saving impact; the uplifts apparently designed to compensate better-performing suppliers for the cut meant a reduction in work that was much more severe than the headline rate indicated. Given these cuts, with current delivery rates it is highly probable that most if not all obligated suppliers will have met their existing targets well before March 2017.

As a result of the cuts to ECO, and unless there is government intervention, there is likely to be a considerable hiatus between the end of ECO and the beginning of the new programme, with no support available for vulnerable households and the attendant risk of reduced capacity and disruptive, short-term, job losses in the energy efficiency industry.

This reform to ECO, by opening up ECO to low cost measures for able-to-pay consumers, also undermined the rationale of the Green Deal and ECO policy framework, where the able-to-pay are expected to pay for cost-effective measures and support is targeted where it is most needed.

The level of funding provided through the current ECO is inadequate to the goal of ending cold homes, even if the entire obligation was devoted to fuel poverty. According to research by Policy Exchange, a levy at the scale of the current ECO

would only provide about a third of the funds required to meet the statutory fuel poverty target¹¹.

Even within this limited scale, ECO has also not always been effective in delivering support to fuel poor consumers, and to consumers in general.

Unlike Warm Front, under ECO, consumers in the eligible group are not guaranteed measures - provision of measures is at the discretion of obligated companies. We are currently carrying out further research into delivery of ECO to fuel poor consumers. However, the incentive on suppliers to deliver measures as cheaply as possible encourages suppliers to focus on:

- consumers able or willing to contribute towards costs, potentially ignoring the most vulnerable consumers with the greatest need
- single measures, regardless of whether several measures would be appropriate for the consumer and property
- urban areas and homes heated by gas, despite rural and off-gas households having higher rates of fuel poverty.

The supplier-led approach also cannot get a clear idea of help available at the first point of contact, which increases the difficulty in advising consumers.

¹¹ Policy Exchange, 2015, Warmer Homes: Improving fuel poverty and energy efficiency policy in the UK <http://www.policyexchange.org.uk/publications/category/item/warmer-homes-improving-fuel-poverty-and-energy-efficiency-policy-in-the-uk>

Lessons from previous schemes

Taking a long-term approach

To improve our nation's housing stock, give consumers greater control over their fuel bills and tackle fuel poverty effectively, consumers, landlords, industry and other partners need long term certainty to engage and invest. The experience of GDHIF and ECO, but also the transition from CERT to ECO and Green Deal, show the need for a long term policy framework.

The consumer response to recent policies shows the need for consumers to see a clearer vision for energy and demand reduction from government and other stakeholders. Consumers should be encouraged to see the active role they can take in energy saving, and when and why they should be making improvements to their homes. Based on our experience of consumer engagement, we consider that Government should focus on providing a clear and consistent message, rather the paid-for advertising for specific programmes. The latter, along with other forms of engagement, is better done by organisations close to the customer, whether commercial or non-profits delivering frontline services.

To provide this long-term certainty and vision we propose that the government sets a long term target of improving all homes in England to an EPC C standard, following the precedent of the government's new fuel poverty target for England. This would also help address a lack of clarity over the aims of recent policies.

We propose target dates for achieving this standard as follows:

- Low income homes (all tenures) by 2025, as recommended by the government's Fuel Poverty Advisory Group¹²
- Social housing by 2025, as proposed by the government's 2010 Home Energy Management Strategy (although this advocated a target date of 2020)¹³
- Private rented homes by 2027, building upon the existing regulations¹⁴

¹²FPAG (2015) *Fuel Poverty Advisory Group (for England) 12th annual report*, DECC

¹³ HM Government (2010) *Warm homes, greener homes - a strategy for home energy management*, Communities and Local Government & Department for Energy and Climate Change.

¹⁴ DECC (2015) *Private rented sector energy efficiency regulations (domestic)*, Department for Energy and Climate Change

- Owner occupier homes by 2035¹⁵

Driving action

The popularity of Green Deal Home Improvement Fund showed that consumers are willing to act if offered a clear and significant incentive, but future schemes need to provide better value for money and sustainability. Incentives built into the tax system would be more sustainable and fairer. Pilot Council Tax rebate schemes have helped encourage consumer action¹⁶. A stamp duty rebate could also have a significant impact. Tax-based incentives can be achieved at little or no cost to taxpayers if, with appropriate safeguards, higher charges are introduced for energy inefficient homes, alongside rebates for more efficient ones. Other regulatory measures, such as consequential improvements, can also drive action, as would effective regulation of the private rental sector.

While a pay-as-you-save scheme, like the Green Deal, is unlikely to incentivise by itself, it can be an enabling factor. Support to lower interest rates could help provide a much more accessible finance offer by increasing the number of measures that can be funded under the Golden Rule, or equivalent, and reducing the shock of the total finance cost. There are a number of ways these could be achieved and features a more accessible loan scheme could have.

Building confidence and trust

Currently consumers and industry face a patchwork of different brands and quality assurance measures depending on what products they are installing and what scheme the work is being done through. This makes it difficult for consumers to identify trusted traders, to know who is ultimately responsible for getting things right, and to get help if something goes wrong. Installers and assessors have told us that the current schemes arrangement are too complex¹⁷.

In the long term, the Government could simultaneously raise standards, reduce red tape and improve consumer experience by introducing a single quality assurance brand and framework covering all energy efficiency and low carbon measures. Any government scheme could then rely on using companies that belonged to this scheme. This should be accompanied by a single ombudsman, so no consumer is left stranded if something goes wrong. We also need to make sure that there is a

¹⁵ Cambridge Econometrics & Verco (2015) Building the future - the economic and fiscal impacts of making homes energy efficient, Energy Bill Revolution

¹⁶ UK GBC (2013) *Retrofit incentives* UK Green Building Council

¹⁷ Pye Tait Consulting (2015) *Research into quality assurance in energy efficiency and low carbon schemes in the domestic market*, Citizens Advice

cohesive customer journey for energy consumers when they seek advice or redress across the energy sector¹⁸.

Our research suggests that if auditing is targeted where the risks are greatest, and the results are better shared between schemes and organisations, it could have a greater consumer protection impact, while minimising the need to increase overall auditing levels. Meanwhile government should address inconsistency¹⁹ by tightening the main technical standards, and the criteria against which installers and assessors are trained and certified.²⁰ We welcome the focus now being given to these issues by Government through the Bonfield Review and it is crucial that the Review delivers real and cost-effective protection for consumers.

Future schemes must also do more to be done to prevent misleading practices and mis-selling in this new market.

Many of the problems we saw under the Green Deal related to companies who were not accredited under the programme but used the scheme's brand to mislead consumers. In future schemes this risk should be minimised through clear and more comprehensive branding and effective partnerships with consumer protection organisations, particularly Trading Standards.

To deal with problems related to cold calling, registered participants of future schemes should agree to only engage in doorstep activity where pre-agreed with the relevant local authority. This would send a strong message to consumers and help to engender trust in the scheme and its participants.

Lessons for future fuel poverty programmes

There are several convincing arguments from recent schemes for shifting responsibility environmental and social programmes from suppliers back to the state. The main drivers of the 2014 cut to ECO appear to be lack of cost control and transparency, and the asymmetric cost of obligations for suppliers. Moving from an obligation on suppliers to a levy would allow greater transparency and control of costs, and, if shifted from bills to taxation, be more progressive.

As mentioned earlier, giving fuel companies lead responsibility for tackling fuel poverty has been problematic. As well as their mixed incentives, they are ill-placed to reach vulnerable households, they may not have the links with the services and organisations that vulnerable and low income consumers use and they cannot provide the back-up home repair services that are often essential before energy efficiency measures can be installed. Local authorities, working with local voluntary

¹⁸ Citizens Advice (2015) Knowing Who Can Help
<https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/knowning-who-can-help/>

¹⁹ Pye Tait Consulting (2015) *Research into quality assurance in energy efficiency and low carbon schemes in the domestic market*, Citizens Advice

²⁰ *ibid.*

and community organisations, can tap into community networks, engage front-line workers and use their local knowledge to reach vulnerable households and improve the worst housing²¹.

We welcome DECC's intention to focus the bulk of the future supplier obligation on fuel poor households. However, as written earlier, this is still insufficient for meeting the statutory fuel poverty targets.

We therefore consider that the supplier obligation should be complemented by an ambitious publically-funded energy efficiency scheme, which prioritises households in fuel poverty to meet minimum standards of energy efficiency. National infrastructure funds could be used to fund this scheme. Recent research shows that:

- Energy efficiency investments meets the government's own definition of infrastructure
- Energy efficiency investments provide value for money as an infrastructure priority, and additional benefits, for example in improved health outcomes
- An infrastructure programme to deliver energy efficiency measures can overcome key barriers that are holding back delivery²²

Such an approach would enable (and necessitate) the delivery through a public body or bodies, such as local authorities. This could be supported by a levy on energy bills replacing the supplier obligation. Alternatively, a supplier obligation, focused on the fuel poor, could be retained alongside a publically-funded infrastructure programme.

Even within the scope of a continued supplier obligation, greater involvement of local agencies, such as local authorities, social landlords and community organisations, could be beneficial. This could be achieved through strengthening the current brokerage model and introducing greater transparency to reduce risk.

Whatever the delivery method, a future fuel poverty scheme needs to facilitate clear, simple and credible offers to consumers, that can be tailored to individual circumstances. Within the scope of supplier obligation, a deemed savings approach would help (it would also help encourage multi-measure installations), as would more long-term stability.

To ensure that consumers in need are helped, future schemes should have flexibility so enable a consumer to get measures if recommended by a trusted

²¹ Citizens Advice (2015) Closer to home: Developing a framework for greater locally led delivery of energy efficiency and fuel poverty services
<https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/closer-to-home/>

²² Frontier Economics (2015) Energy efficiency: An infrastructure priority
<http://www.frontier-economics.com/documents/2015/09/energy-efficiency-infrastructure-priority.pdf>

advisor. For example, referral by a GP for cold-related ill health should be made an eligibility criterion for the scheme. This should be combined with use of mandated referrals (a yet-to-be used power within the existing ECO regulations), so that consumers in need are guaranteed help.

In past schemes, particularly CERT, too much resource went on searching for vulnerable consumers and checking eligibility once potential clients were identified. Depending on the design of future schemes, the government makes more extensive use of data matching procedures, such as those currently used for the Warm Home Discount²³. This could help organisations delivering fuel poverty schemes identify those most in need, increasing the potential of these schemes and cutting delivery costs.

Also, due to the eligibility criteria used, past schemes have not always accurately targeted households in fuel poverty²⁴. Area-based schemes can allow accurate assessment of household need and reduce the cost of identifying and targeting eligible consumers, through a house-by-house approach to determining eligibility²⁵. In area-based schemes where living in a local area is itself the basis for eligibility, as in ECO's Carbon Saving Communities Obligation (CSCO), the accuracy of targeting depends on the indicator used to determine which areas are covered. For example, CSCO currently relies on the Index of Multiple Deprivation, but targeting could be improved if a fuel poverty was used to determine which areas are covered.

²³ Citizens Advice, 2015, Data sharing to target fuel poverty
<https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/data-sharing-to-target-fuel-poverty/>

²⁴ IPPR, 2013, Help to Heat:
<http://www.ippr.org/publications/help-to-heat-a-solution-to-the-affordability-crisis-in-energy>, Policy Exchange, 2015, Warmer Homes: Improving fuel poverty and energy efficiency policy in the UK

²⁵ IPPR, 2013, Help to Heat:
<http://www.ippr.org/publications/help-to-heat-a-solution-to-the-affordability-crisis-in-energy>,