



Paint the Town Green

Meeting the energy efficiency challenge at community level

Luke Hildyard

New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

© NLGN November 2010
All rights reserved
Published by NLGN

Prepared by NLGN
First floor, New City Court, 20 St. Thomas Street, London SE1 9RS
Tel 020 7357 0051 . Email info@nlgn.org.uk . www.nlgn.org.uk



Executive Summary

The climate change challenge and the Green Deal

The challenge of Climate Change is well-documented. The 2008 Climate Change Act mandates a 34% reduction in carbon emissions (on 1990 levels) by 2020 and an 80% cut by 2050. As part of the roadmap for achieving the 2020 target, a 29% reduction in domestic carbon emissions on 2008 levels is required by 2020.¹ Improving the energy efficiency of our homes will be crucial to meeting this target.

Energy efficiency is also vital to the UK's efforts to tackle the problems of fuel poverty and energy security. Inefficient homes are responsible for the substantial energy bills facing some of the poorest households. More efficient use of energy will make the UK less susceptible to unreliable energy sources and dwindling fossil fuel supplies.

To date, supplier obligation schemes such as CERT (Carbon Emissions Reduction Target) and CESP (Community Energy Saving Programme) have been central to the Government's response to the challenge of energy efficiency. These schemes compel energy providers to deliver household energy efficiency measures that will reduce carbon emissions. They are targeted particularly at households in certain geographic areas and low income groups. However, these supplier contributions are structured in such a way that they sometimes fail to prioritise those in fuel poverty or most in need of support.

The policy framework is now changing. At the centre of the current Government's response to carbon emissions from UK households is the 'Green Deal', which will form a key plank of the Energy Security and Green Economy Bill. The Green Deal will allow households to install energy efficiency improvements with a suggested value of up to £6,500 at no upfront cost. Responsibility for repayments will be attached to the property rather than the individual. The Green Deal's 'golden rule' implies that the scheme will operate where the lifetime reduction in energy bills achieved as a

¹ HM Government, *The UK Low Carbon Transition Plan: National Strategy for climate and energy* (2009) p11

result of the energy efficiency improvements to the property is greater than the cost of their installation. Therefore, households will benefit financially from their investment.

Conceptually, the Green Deal has much merit. However, there are questions as to how effective it will be in the social housing sector, which represents 18 per cent of the households in the UK.² Reducing carbon emissions in these homes will be crucial to meeting the UK's climate change targets and could help bring vulnerable households out of fuel poverty. This is particularly pressing given that fuel poverty in the social housing sector is increasing at a disproportionately high rate, which could be exacerbated by recent housing policy changes.

The social housing sector and the Green Deal

Specific challenges and complexities in the social housing sector mean that the Green Deal alone will not be a sufficient mechanism to increase energy efficiency to the extent necessary.

- Independent experts estimate that Average Standard Assessment Procedure (SAP) Ratings must increase to 80 or 81 to achieve the 80 per cent target reduction in carbon emissions and to 'fuel poverty proof' housing stock.³ The social housing sector currently maintains an average SAP rating of 59.⁴ The scale of energy efficiency improvements necessary to improve this by over 20 points will be expensive, and the golden rule of the Green Deal may not apply.
- Approximately 1.5 million social homes, around 39% of the total, are classified as 'hard to treat'.⁵ Again, the costs of improvement to many of these homes will be significant, perhaps more than the proposed Green Deal limit of £6,500, and again the 'golden rule' of the Green Deal will not apply in a number of cases.

² Department for Communities and Local Government (DCLG), *English Housing Survey*, 2009, p10

³ Brenda Boardman, *Home Truths: a low-carbon strategy to reduce UK housing emissions by 80 per cent by 2050*, Oxford University Press, (Oxford, 2007) p53; and Audit Commission, *Lofty Ambitions*, 2009, p65-66

⁴ DCLG, *English Housing Survey: Headline figures 2008-09*, p30

⁵ Building Research Establishment, *A study of hard to treat homes using the English House Condition Survey*, 2008 p8

- Many people in fuel poverty under-heat their homes. They may react to improvements in energy efficiency by increasing comfort levels rather than buying less fuel. Consequently, they would not enjoy the necessary savings in their energy bills to pay for the Green Deal improvements.
- Poorer people in social housing may be reluctant to take on what is perceived to be a substantial and long term debt in order to pay for energy efficiency improvements. Furthermore, a standing charge on the fuel bills of these tenants would limit their opportunity to reduce their energy use dramatically in order to save money at a time of tightened household finance.

To resolve these inherent problems, **NLGN recommends that:**

- *The energy supplier obligations, the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP), due to be revised in 2012 should be radically reformed.*
- *A new supplier obligation should be concentrated on homes where the 'golden rule' of the Green Deal does not apply or where households are projected to remain in fuel poverty even after the efficiency measures have been put in place. For those homes where the 'golden rule does not apply, a grant from the supplier obligation could cover the shortfall between the upfront costs of energy efficiency measures and the savings they generate, guaranteeing a return on their investment, with the remainder covered by the Green Deal. Those projected to remain in fuel poverty would have all measures covered by a grant. This reform could be introduced by requiring energy suppliers to meet broad-based outcome targets focused on carbon reduction and fuel poverty alleviation. It would achieve both an improvement in the prioritisation of those in greatest need and a reduction in the complexity of the supplier obligation.*
- *The £6,500 limit on the Green Deal should be removed, allowing it to be used as a payment mechanism wherever the 'golden rule' applies.*

Tackling the challenges of the tenant-landlord relationship

Social housing is characterised by particular types of relationship between tenant and landlord. Our research unearthed challenges and opportunities which have implications for the take-up of the Green Deal:

- Social housing residents expect the Registered Social Landlord (RSL) to bear the cost of refurbishments to their property so will be reluctant to take on debt of their own to fulfil a landlord responsibility.
- If households do look to access the Green Deal independently, RSLs are concerned that this could disrupt wider maintenance works across their estates.
- RSLs are well positioned to drive economies of scale and encourage take-up by reducing the costs of energy efficiency improvements. Pilots have indicated that as much as 20 percent can be saved when whole streets are improved rather than single properties.⁶
- There is significant scope to exploit the high levels of trust that RSLs enjoy and the available channels of communication that exist between tenants and RSLs.

To address the challenges and maximise the opportunities presented by these relationships, **NLGN recommends that:**

- *Provided they gain consent from their tenants, RSLs should be able to contract stock-wide energy efficiency improvements, with repayments attached to the property, through the energy bill, rather than the RSL as owner.*
- *Local authorities and RSLs should form partnerships with energy or Green Deal suppliers, providing an offer to both the social housing sector and private residences. This would drive economies of scale and allow RSLs to integrate Green Deal works with their wider maintenance programme.*

⁶ Sustainable Development Commission, *The Future is local*, 2010 p7

Putting the right incentives in place

If a Green Deal policy supported by supplier obligations is to work in social housing, then all participants in the decision making chain must be incentivised to make use of it.

Although there are challenges to overcome, tenants are incentivised by savings on their fuel bills or, in the case of the fuel poor, by more comfortable homes. Energy suppliers are subject to financial penalties if they fail to fulfill their supplier obligations. And those who finance the Green Deal will do so for long term financial benefit.

The landlord is the gap in this chain. Although the landlord is responsible for making improvements to social housing, the benefits of the Green Deal will flow to the tenant. Aside from social landlords' altruistic interest in the welfare of their tenants, they are not incentivised in any direct and tangible way to make sure energy efficiency works take place. In addition, the Government has abolished the national indicators that previously promoted energy efficiency improvements and carbon reductions.

To ensure all the participants in the Green Deal supply chain are incentivised to maximise the benefits of the policy, **NLGN recommends:**

- *A right for tenants to demand their landlord provides energy efficiency measures using the Green Deal mechanism.*
- *Devolution of a proportion of the UK's carbon reduction targets to local government level.*
- *Local authorities themselves should consider the role of household incentives in persuading people to participate in the Green Deal. These could be offered in the form of vouchers or points redeemable from local businesses, or funding for energy improvements to community facilities.*
- *Community or household incentives should be offered on a sliding scale, in order that the Green Deal could also be used to boost neighbourhood social capital.*

Although prevalent in social housing the challenges set out in this report are not unique to the sector. The Green Deal may have similar obstacles to overcome in other forms of tenure:

- The landlord/tenant dynamic will be an issue in private rented housing.
- Fuel poverty exists outside the social housing sector.
- Many private homes are classified as hard-to-treat.

This implies that the recommendations we set out could have application beyond the social housing sector in which our research has been based.