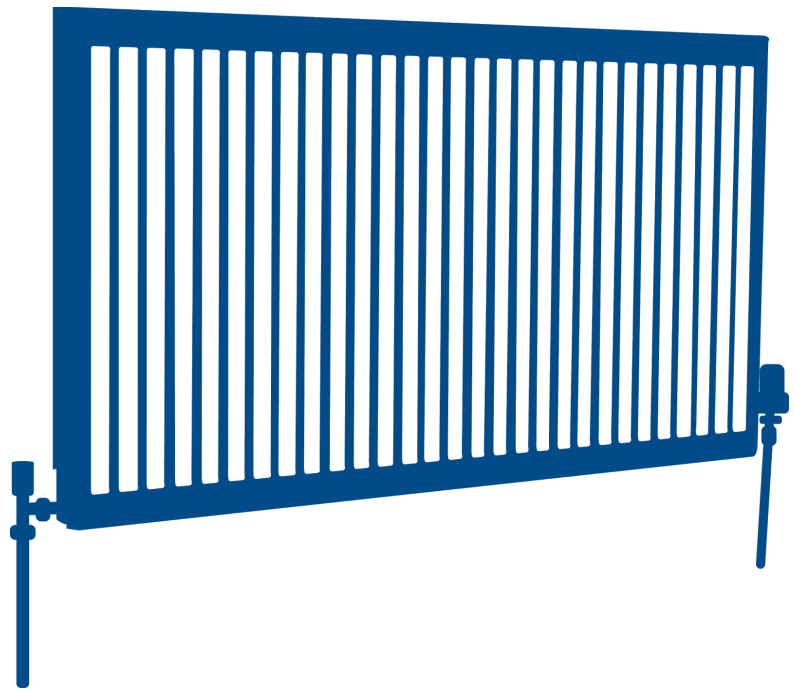


Energising homeowners

Research into consumer
decision-making on energy
efficiency improvements



Contents

Introduction	3
Context	4
Attitudes to energy efficiency improvements	6
Driving behaviour change	7
Inspiring trust	8
Motivating consumers	10
Help to pay for energy efficiency measures	12
High quality delivery	13

Introduction

There is a clear consumer case for making homes more energy efficient. Energy efficiency is one of the best ways to control bills in the long run. It can reduce fuel poverty, bringing a dividend in health and social benefits. It can also cut the cost of reducing our carbon emissions, a cost that energy consumers too often pick up.

Effective energy efficiency policies can make a big difference. Between 2004 and 2014 household energy consumption fell by on average 28% per person¹. Energy efficiency upgrades played a significant role. For gas consumption, two-thirds of reductions between 2006 and 2010 were down to improved home energy efficiency².

More progress is needed if governments are to meet their carbon and fuel poverty targets. All homes are rated from A to G for energy efficiency, and around 75% of Great Britain's houses still have an energy-efficiency rating of D or below³. But since 2013, progress upgrading homes has slowed markedly.

Energy efficiency policy is now at a crossroads. The UK government has indicated it will focus subsidies on helping households in fuel poverty (through the next Energy Company Obligation). We welcome this focus⁴. However it leaves a considerable gap in policies to encourage 'able-to-pay' households to install measures, with little or no public subsidy on offer.⁵ In this context, designing effective incentives will be vital to increasing take-up⁶.

To support the development of policy in this area, we carried out research into how consumers think and make decisions about home energy efficiency improvements. On this basis, we make a number of recommendations for the design of a successful energy efficiency incentive policy.

¹ DECC (2015) Energy Consumption in the UK. quoted in Policy Exchange, (2016) [Efficient Energy policy](#)

²CEBR (2011) British Gas Home Energy Report 2011, quoted in Policy Exchange (2016)

³ National Audit Office (2016) Green Deal and Energy Company Obligation

⁴ While noting that more needs to be done to make sure the Fuel Poverty Strategy for England is delivered.

⁵The situation is similar in Wales, (although support for households in fuel poverty is more extensive in Wales than England). One aim of the Welsh government's Energy Efficiency Strategy for Wales is to foster a market in Wales for energy efficiency measures for able-to-pay households, without additional subsidy.

⁶ Energy and Climate Change Select Committee (2016) [Report on home energy efficiency and demand reduction](#); Policy Exchange (2016)

Context

The launch of the Green Deal and the Energy Company Obligation (ECO) in early 2013 was a major break from previous energy efficiency policies. The most fundamental change was Green Deal's attempt to get consumers themselves to pay for energy efficiency measures. This was done primarily by offering householders a 'pay-as-you-save' loan to cover the cost of installations. ECO was expected to top-up these householder contributions to meet the extra cost of solid wall insulation.

The Green Deal approach depended on consumer willingness to invest their own money in energy efficiency. It failed because it focused solely on facilitating access to financing, and did not address the challenge of motivating householders to take action. According to UK government research, the Green Deal and ECO did not have any impact on the proportion of consumers considering energy saving measures⁷. This was despite 84% of consumers being concerned about steep rises in energy prices. There was no clear target for the Green Deal but it helped improve only 14,000 homes⁸, well below the government's ambitions. Last summer, the only Green Deal finance provider closed as a result of the low take up.

The design of the Green Deal and ECO failed to adequately reflect consumer decision-making. Rather than assuming that householders will take economically rational decisions in terms of return on investment, we must try to understand non-financial motivations, and take into account consumers preference for short term gain and avoidance of loss⁹.

This research - carried out for Citizens Advice by Accent - provides a deeper understanding of the factors and process that influence consumer decision-making in this area. It consisted of a desk review of the available behavioural evidence and detailed qualitative research with a range of able-to-pay consumers in England and Wales¹⁰. A qualitative approach allowed us to gain detailed insight into consumer priorities, decision-making and likely responses to incentives.

⁷ DECC, 2013, [Public Attitudes Tracker](#)

⁸ National Audit Office (2016) [Green Deal and Energy Company Obligation](#)

⁹ Consumer Focus (2012) [What's in it for me?](#)

¹⁰ The full report can be found [here](#). The qualitative research methodology was designed to overcome response biases that can undermine research in this area. To do this, the research placed energy efficiency within a wider decision-making context and used a range of group and individual tasks, including scenario work. Research was conducted with owner-occupiers, not in receipt of income-related benefits, living in properties built before 1993, without full loft and wall insulation. For the full methodology is set out in the Accent report.

Attitudes to energy efficiency improvements

The research found that the challenges in motivating householders to invest in energy efficiency measures are significant.

Awareness and understanding of available measures is low. Savings on energy bills are not a sufficient motivation for able-to-pay consumers, who either feel their bills are manageable, or have adapted to any discomfort they may feel from living in a cold home. When making home improvements, they tend to be motivated by comfort and aesthetics rather than cost savings. While they can be motivated by the opportunity to increase the value of their home, they do not tend to think better energy efficiency would do this. Finally, they see little link to wider environmental issues, notably climate change.

Even if they were well-informed and motivated, householders feel a number of barriers would prevent them taking up measures, including:

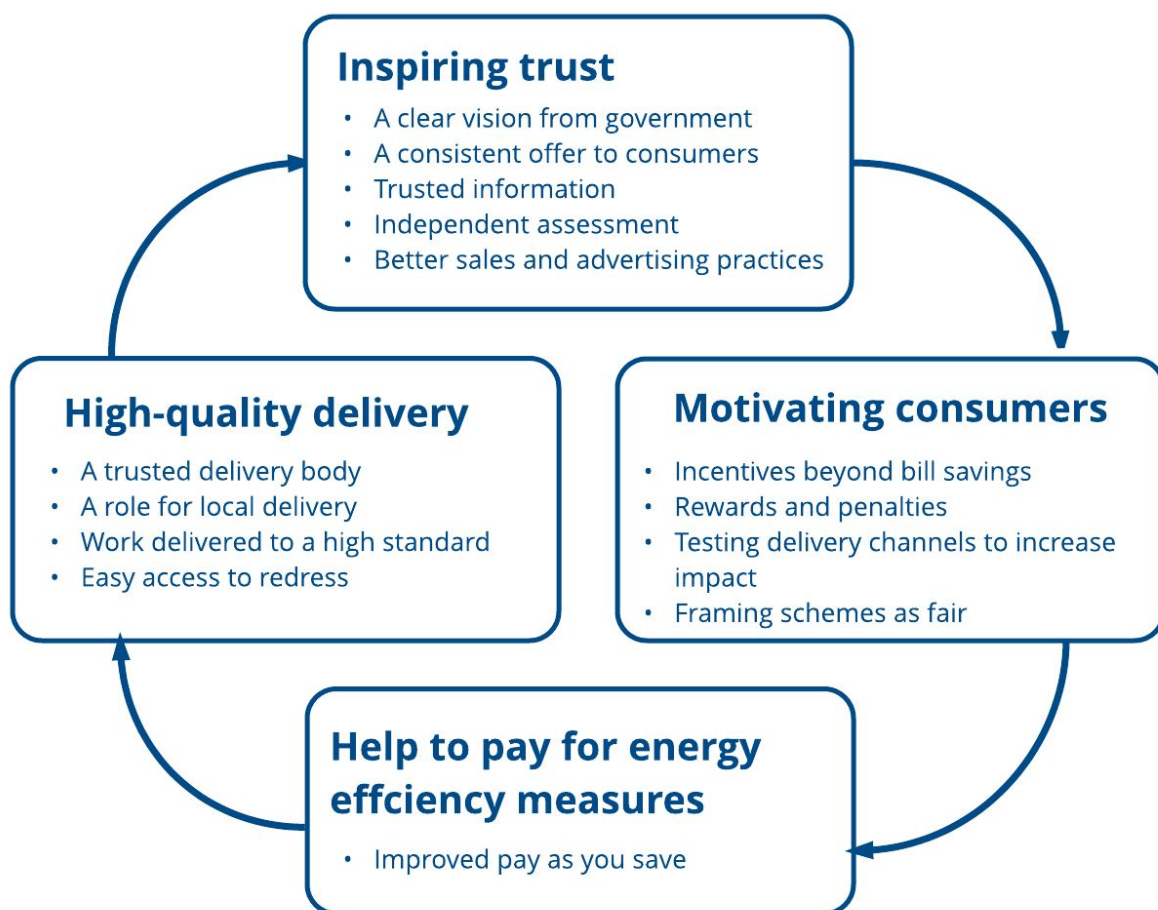
- Upfront cost
- Uncertainty about return on investment
- Their own long-term plans and uncertainty about the future
- Disruption to the home, particularly with loft insulation
- A preference for the *status quo*
- Difficulty finding reliable and trustworthy tradespeople
- Mistrust of energy efficiency providers and their sales practices
- Complexity of measures and their opacity
- An unwillingness to consider paying for measures that have been subsidised in the past, for example loft insulation

The research suggests age can affect attitudes towards paying for energy efficiency measures. Younger householders tend to be more financially stretched and have numerous other spending priorities. They would be more reticent about investing a lump sum in energy efficiency measures, or simply feel that it would not be possible. Older householders tend to be more concerned with the concept of energy efficiency and more focused on the benefits of increased comfort. They also tend to have more disposable income and less immediate financial pressure. As a result, they are more ready to consider a large upfront investment, especially if a return can be demonstrated.

Driving behaviour change

Despite these significant challenges, the results point to many recommendations that together could help to encourage able-to-pay consumers to install energy efficiency measures.

These recommendations will only work in combination; first inspire trust, then motivate consumers, help those who are interested to easily access energy efficiency measures, and finally ensure high quality delivery of these measures, which in turn should further increase trust.



“I would invest in energy efficiency if the benefits are immediate and obvious when explained, it’s affordable and didn’t spoil the appearance of my home.”

We focus on measures that might lead to behaviour change, and also address how concerns about the fairness of policies in this area might be addressed. Our recommendations suggest changes in public policy but also present a challenge to industry. Providers need to do more to deliver measures that are attractive to householders, and address concerns about aesthetics and disruption¹¹.

¹¹ Also of potential interest for energy efficiency providers are reports from our predecessor body: Consumer Focus (2012) [What's in it for me?](#); Consumer Focus (2012) [What's in it for us?](#)

Inspiring Trust

A clear vision from government

Consumers are likely to respond better to incentive schemes if they are part of a wider narrative about why action is needed. Householders currently do not feel there has been convincing vision from government on home energy efficiency and individuals' role in it. They see government policy as inconsistent. Some think climate change is no longer a central government priority, casting doubt on how seriously they should take the issue¹².

The UK and devolved governments, and other stakeholders need to provide a consistent and clear message to householders about when and why they should be making improvements to their home.

Setting long term (non-binding) targets in terms of Energy Performance Certificate (EPC) standard would be a simple way of sending a message to consumers, as well as the supply chain.¹³ In the context of a UK exit from the European Union, there is the potential for a reduction of VAT for energy saving measures, which could drive increased activity in the sector. Delivering this long-term vision, including through regulation, is likely to have more influence on consumer behaviour than advertising specific products or schemes.

A consistent offer to consumers

Inconsistent policies can reduce consumer confidence in energy efficiency schemes. Householders are put off engaging with energy efficiency because of their uncertainty around the offers open to them. They do not want to spend time applying only to find they don't qualify. Some have been left cynical by frequent changes to government schemes and worried that changes to regulations might mean action taken now will be deemed insufficient in future.

Consumers do not always take up offers at the time they become available, and are more likely to make improvements at certain trigger points, for example when carrying out other renovation works. Consistent policies would help them do this.

Governments therefore need to design policies to provide a consistent and clear offer to consumers. Recent schemes have fallen short in this respect. The Green

¹² We did not explore the extent to which consumers perceptions may differ between devolved and central governments.

¹³ This is already done through other policies, notably England's fuel poverty target. Government is already using EPC bands to set the long-term trajectory in other sectors.

Deal closed quickly and ECO support on offer from providers changes according to market trends.

Trusted information

Consumers can't engage in energy efficiency if they don't know or understand enough about it. They need information they feel they can trust about the benefits, costs, and return on investment. Greater engagement could be encouraged by improved information and advice provision.

Currently, energy efficiency advice and information is often delivered in a piecemeal way, including differences in national level provision in England and Wales¹⁴. An easily-identifiable, comprehensive, trustworthy and long-term source of information on energy efficiency and renewable measures would be helpful not just for consumers seeking advice, but also for firms and advice agencies dealing with consumers. Information on costs and savings is particularly important given specific consumer concerns in this area.

Independent assessment

Householders feel a professional assessment of the property would be an important step in the decision to install measures. To be convincing it would need to support any recommendations with clear numerical data. Consumers tend to feel that this assessment should be free of charge, particularly given the uncertainty about what next steps it could recommend.

Better sales and advertising practices

Consumers are also put off by energy efficiency firms increasingly taking what they see as 'hard sell' approach. They see providers as making spurious claims about costs, return on investment, and the availability of grants or other financial incentives. For householders, undermines and devalues the value of home energy efficiency as a whole. At Citizens Advice, we received significant numbers of cases related to potential scams using the name of the Green Deal¹⁵.

Government can play a leading role here. Inconsistent and complex UK government policies and messages have made it harder for even

¹⁴ Georgia Klein (2015). [Strengthening and streamlining energy advice and redress](#): An independent review of the adequacy of energy advice and redress

Westminster Sustainable Business Forum (2016) [Warmer & Greener: A guide to the future of domestic energy efficiency policy](#)

¹⁵ Citizens Advice (2014). [Green Deal watching brief part 2: written evidence submitted by Citizens Advice](#)

well-intentioned companies to avoid misleading customers. And they can create a fertile environment for unscrupulous ones.

The behaviour of firms also needs to be addressed directly. A code of conduct for accredited providers should cover the marketing claims they make, and lead to enforcement action when misleading claims are made. This should extend to the lead generators who often contact consumers on behalf of energy efficiency firms. The ASA should develop guidance on specific issues related to marketing energy efficiency measures.

Motivating consumers

Incentives beyond bill savings

Given how consumers think and feel about the subject, simply removing barriers to energy efficiency are unlikely to drive a considerable increase in uptake.

Homeowners feel that additional incentives are needed here, in particular to get consumers who would not otherwise be thinking about energy efficiency to do so.

In the past, grants like the Green Deal Home Improvement Fund, have proved popular with some consumers. However, these proved financially unsustainable for government. In addition, consumers feel that grants would have limited reach beyond consumers already thinking about taking up measures. More impact could be had by linking incentives to policies that consumers already interact with, notably taxes.

Rewards and penalties

While rewards are popular, consumers suggest that rewards alone are unlikely to be enough to make them act. Some thought that a penalty for inaction could greatly increase the impact of an incentive. However there was understandable concern about the impact this might have some households and families, particularly those who are already financially stretched.

Regardless of their views on fairness, householders feel that penalties are the most *effective* way of driving action. A penalty in the form of an additional tax would tap into consumers' loss aversion and create a sense of urgency. This can have an impact beyond the value of the incentive itself and magnify its effect on behaviour.

A penalty can also reinforce wider efforts to reframe behaviours. When thinking about energy efficiency, homeowners currently don't tend to feel they have a

personal responsibility in relation to climate change. A policy that includes penalties as well as rewards could challenge this perception, and help to reframe home energy efficiency as a social responsibility, as well as an individual priority.

Consumers feel a reward-and-penalty approach could work in a similar way to road tax, to bring the issue of energy performance to the front of mind.

Testing delivery channels to increase impact

An incentive, whether a reward, penalty or both, could be introduced through council tax and/or stamp duty. Consumers respond differently to each, and the design of any tax incentive would need to reflect this. Testing is vital to establish which type and level of tax change would be most efficient at encouraging action, while also being seen as fair by householders.

Council tax is likely to have greater potential to impact behaviour. It is a regular, substantial household expense and felt by consumers as a financial burden. It tends to be front of householder's minds and tangible to them. There is also the potential to vary council tax rates at a devolved nation level in a way that could be tailored to the different schemes and incentives offered by the Welsh and Scottish governments.

Stamp duty on the other hand can be hidden from view by being absorbed into a mortgage and may be framed as part of the cost of moving. It is felt to be less visible and tangible and, overall, less likely to motivate action. However, a stamp duty approach could have certain other advantages. Mortgage extensions have the potential to be a simple and helpful way of paying for upfront costs¹⁶. This could be integrated with a stamp duty incentive to provide a self-contained offer to consumers. Other reports have suggested that a stamp duty incentive could help develop a link between energy efficiency and house prices¹⁷. If this effect did occur, it would motivate households concerned with adding to their home's value.

Some feel that an energy efficiency incentive targeted only at homeowners or homebuyers is arbitrary and unfair. Communicating the rationale behind either incentive will thus be an important challenge.

¹⁶ Policy Exchange (2016)

¹⁷ See *ibid.*

Framing schemes as fair

Consumers accept that grant offers are no longer as widely available as they once were. But a tax penalty would be a cost burden on already financially-stretched households. They do not want only the well-off to be able to carry out work and reap the reward. Young families in particular feel they would be unable to finance the upfront cost of measures and would be penalised. Consumers are also concerned that a tax penalty could penalise those living in an older property, or demand action they consider unreasonable.

If a tax penalty was pursued, fairness could be baked into the design of these schemes in three ways:

- First is the design of the incentive itself. With council tax, a penalty can be scaled according to property band, so householders in lower value properties pay less. A stamp duty incentive could likewise be scaled in proportion with house prices.
- Accessible finance options for those who could not otherwise afford measures.
- Time to ensure householders have a fair chance of avoiding a penalty. This could be done through a stepped approach where enablers (such as better information and an effective pay-as-you-save scheme) are introduced first, with a clear and visible long-term trajectory, ending in the introduction of a penalty tax.

Help to pay for energy efficiency measures

Improved pay as you save

Despite the failure of Green Deal, a pay-as-you-save (PAYS) loan, or a low-interest loan more generally, is still an appealing concept for householders, albeit at very low interest rates (1-2%), rather than the market rates that were available under the Green Deal. Householders have little awareness of the Green Deal itself¹⁸ and do not seem to have been not been put off PAYS by any negative press around it.

A loan is unlikely to prompt action by itself. But a PAYS scheme could have an important role overcoming the barrier of upfront costs alongside other incentives, particularly for younger householders, and is essential to avoid leaving behind those without upfront capital. PAYS or loan approaches have less

¹⁸ DECC survey research carried out July 2014 indicated 29 percent name recognition for the Green Deal. DECC (2014) [Green Deal Household Tracker Survey: July 2014 dip headline findings](#)

appeal for older householders, for whom loans in general tend to have negative connotations. This could be addressed through the design and communication of a scheme, for example by reframing it as an investment.

High-quality delivery

A trusted delivery body

Given wide mistrust of both government and energy efficiency companies, householders feel a national energy efficiency initiative would be most effective if delivered by an independent, not-for-profit, organisation, or a group of organisations. This body would have a role administering and communicating a new home energy efficiency initiative, holding a database of accredited providers, and in helping the householder assess their needs.

A role for local delivery

The nature of the research meant it did not explore the benefits for consumer engagement of local energy efficiency schemes. This has been widely covered previously¹⁹. But the recommendations here and a local delivery approach are mutually beneficial. A local delivery scheme can help trusted bodies get advice and information to consumers. At the same time our recommendations would provide an offer for able-to-pay consumers that would help local schemes to engage this group.

Work delivered to a high standard

Householders' trust and confidence in energy efficiency has started to be undermined by substandard insulation work. Consumers in south Wales spontaneously brought up reports about cavity wall insulation causing damp as a reason not to take action. More generally, consumers feel they would struggle to find reliable energy efficiency tradespeople. There are a number of reasons why making sure quality is high is particularly hard with energy efficiency measures, even compared to other home improvement sectors²⁰.

Consumers would be encouraged to engage in this market if they knew all work was going to be done to a high standard. Past research for Citizens Advice

¹⁹See for example Citizens Advice (2015) [Closer to Home](#); Consumer Focus (2012) [What's in it for me?](#); IPPR (2013) [Help to Heat](#); Which? (2015) [A Local Approach to Energy Efficiency](#)

²⁰ Pye Tait Consulting (2015) [Research into quality assurance in energy efficiency and low carbon schemes in the domestic market](#), Citizens Advice

outlined shortcomings in the processes designed to maintain quality of work in this sector, and what needs to be changed²¹. Government and industry are starting to address these issues through the Bonfield Review²².

Easy access to redress

A trusted brand for all energy efficiency works needs to be underpinned by an effective monitoring and enforcement body. If anything does go wrong, consumers should be able to access a consistent, effectively and timely process for getting things put right.

²¹ *ibid.*

²² An independent review, commissioned by government, into quality and standards in home energy efficiency and renewables. See: <https://www.gov.uk/government/publications/bonfield-review-terms-of-reference>