Improving home energy performance through lenders

Citizens Advice response
to BEIS consultation
February 2021

About Citizens Advice

Citizens Advice provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. From 1 April 2014, Citizens Advice 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.

Citizens Advice is a network of nearly 300 independent advice centres that provide free, impartial advice from more than 2,900 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 particularly dispersed groups. We give advice to people through our network of local Citizens Advice and through our national consumer service helpline. Between these 2 services, last year we advised over 130,000 people, solving 100,000 problems. Over 25,000 people saved money because of our advice. We also offer specialist support to the people who need our help most through the Extra Help Unit, where we dealt with over 15,000 cases. Since April 2012 we have also operated the Citizens Advice consumer service, formerly run as Consumer Direct by the Office for Fair Trading (OFT). This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues. This document is entirely non-confidential and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

citizens advice

Introduction

We welcome this consultation from BEIS on improving home energy performance through lenders.

Reaching the government's target of reaching net zero emissions by 2050 will require home energy improvements being installed in most homes across the country. Yet the current landscape of support for householders looking to invest in these measures and technologies is limited and patchy.

Citizens Advice agrees that lenders can play an important role in driving improvements in the energy performance of homes, and welcomes proposals to give them a greater role. But the government needs to give greater consideration to the following areas:

Support

Supporting consumers to make improvements to meet Net Zero will require financing and funding solutions that work for all consumers. Many owner-occupied households do not have a mortgage, and many of those who do are likely to need additional funding and incentives beyond mortgage lending, especially if they are on a lower income. The government needs to set out its plans for lenders within a wider framework to improve the energy performance in homes that provides support which meet the needs of all consumers[1].

It is particularly important that affordability exemptions in the policy do not leave behind consumers on a lower income or in financial stress. Instead, the policy should be designed to make sure these consumers get the help they need.

The government should also make sure that any penalties should only be introduced when property owners have been given appropriate information, financial support and time to make changes to their property.

The role of mortgage lenders

Our research indicates consumers need both access to finance and incentives to encourage them to install home energy upgrades[2]. We consider mortgage lenders well-placed to provide low cost finance to mortgage holders. It is less

[1] This should be done through its planned heat and building strategy, which is expected early this year.

[2] Citizens Advice, Energising Homeowners, 2016

clear they are best placed to be the main driver of the uptake of energy efficiency for these households.

Delegating energy efficiency policy to the market can deliver efficiencies, because firms compete and can quickly respond to consumer needs. However, it also risks unintended consequences. The experience of the ECO scheme demonstrates some of these consequences[3]. These risks include:

- cherry-picking certain consumers and leaving others. This may leave a rump of hard-to-support customers, who could have been more efficiently supported through a more coordinated delivery approach
- unintended impacts on competition
- a lack of transparency
- a complex and opaque consumer journey

The government should show that it has considered these risks, and, where appropriate, taken adequate steps to mitigate them.

It should also demonstrate that it has considered other options to incentivise owner-occupiers to take up energy efficiency measures, and whether or not it intends to introduce these alongside targets for lenders.

The government should also set out clearly the success criteria for this policy and how it will adjust the policy if it is not on-track.

Targets

Particular unintended consequences could be created by setting a target in terms of a portfolio average EPC rating, as the consultation proposes. This could lead to customers in poorer performing properties losing out, while doing little to drive actual improvements. We recommend that the government considers introducing targets based on the relative improvement in properties' energy efficiency.

Advice

The decision to install home energy improvements can be very complex, particularly as consumer awareness of these measures tends to be low[4]. It is essential for the success of this policy that consumers can access high quality

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[3] Citizens Advice, Lessons for net zero, October 2020

[4] Citizens Advice, Navigating net zero (forthcoming)

independent advice about what changes they need to make their homes more efficient or switch to a different heat source. This should include holistic advice tailored to the energy efficiency and low carbon heat needs of individual homes. This policy is also likely to create a proliferation of different financing options for consumers. It is therefore essential that consumers have guaranteed access to high quality, independent advice about the options available to finance the supply and installation of household energy efficiency measures and green heating solutions.

Chapter 1: Disclosure of portfolio energy performance data

Question 1. Do you agree with the principle of all lenders publicly disclosing information on the energy performance of their portfolios?

Yes. We agree with this principle for the reasons set out in the consultation.

Question 2. Do you agree with the proposed EPC information lenders will be required to collect? If you disagree, please explain why.

Yes. We agree that both Energy Efficiency Rating (EER) and the Environmental Impact Rating (EIR) should be collected. Requiring lenders to disclose the EPC and EIR potential of their portfolio would also reveal the scope of improvement among lenders and provide useful information to government to help monitor and formulate policy.

Question 3. Do you agree with the proposed disclosure information? If you think there is other information that would be useful to disclose that is not included in this proposal, or you do not agree with the proposal, please explain why.

Yes, Citizens Advice supports the proposed five requirements for information which should be disclosed by lenders annually as a minimum. We also recommend government consider expanding these requirements to include:

1. All disclosure data is disaggregated for residential, buy-to-let and small non-domestic mortgages. This will give the government greater insight in order to monitor each category and ensure policies are designed to address any issues.
2. The current percentage of properties in each EIR Band. This will give greater insight into the national picture and support the plans to reduce the carbon emissions from homes
3. The number of mortgages in the portfolio by each EPC band. In addition to requirement 1, this would help monitor whether lenders are avoiding lending to lower EPC properties under an average target
4. The number and value of green lending products issued to new and existing customers. This would help assess the policy overall impact, and its impact on competition
5. The number of properties which have received green lending by each EPC band, in order to understand the impact of these policies and lenders' behaviour.
6. The total increase of EER and EIR improvements achieved through green lending (as above)

7. The average increase in EER and EIR improvement scores for properties improved through green lending to effectively monitor the success of these policies.

In response to Question 12 we recommend that a relative target would better meet the aims of the policy. Under a relative target we anticipate that the disclosure requirements would be similar, with 4-7 being particularly important.

Question 4. Do you agree that the option to provide additional commentary alongside disclosures would be useful? If not, please explain why, including any alternative proposals.

Yes. Commentary has the potential to provide important context for the disclosure of information and we recommend that relevant commentary is required.

Question 5. Do you agree with the proposal that all lenders, irrespective of market share, be required to publish energy performance data on their websites as well as on GOV.UK aligned to annual reporting deadlines? If not, please explain why.

Yes.

Question 6. Do you agree with the proposal that government use the disclosure information to publish 'league tables' of lenders? If not, please explain why.

Yes, Citizens Advice agrees that disclosing information in the form of league tables will help present information clearly and transparently, and enables easy comparison between lenders. It could potentially act as a reputational incentive to lenders to perform well in improving the EPC performance of their stock.

League tables should be presented clearly to prevent misinterpretations of what the data represents. For example, it should be clear that the league table does not rank lenders based on any important factors that would influence borrowers decisions, such as on lenders interest rates, customer service, or the lender's operational environmental impact such as that considered under scope 1 or 2 greenhouse gas emissions.

There is a risk that under a voluntary scheme for disclosure and targets some lenders may not participate. League tables should indicate clearly where this is the case.

Question 7. Do you agree that properties financed by a Buy-to-Let mortgage should be included in the scope of the policies proposed in this consultation? If not, please explain why, including any alternative suggestions.

Yes, Citizens Advice agrees that properties financed by a buy-to-let mortgage should be included in the scope of the policies proposed. We stated in our response to the consultation on Improving the Energy Performance of Privately Rented Homes in England and Wales[5], that regulation and targets for improving the energy performance of properties should be combined with effective means of financing improvements in the form of zero or low interest lending. Including buy-to-let mortgages within scope will help to ensure landlords have access to the necessary finance required both to meet these regulations, and to make improvements above the minimum level.

If the government finds that some lenders' stock is disproportionately buy-to-let properties it may need to consider how it can incentivise action among these providers, over and above that which should take place anyway though the minimum energy efficiency standards.

Question 8. Do you agree with the proposed trajectory to mandatory disclosure? If not, please outline the reasons why.

Citizens Advice is concerned that the proposed trajectory could potentially result in slow progress in the sector. The government does not foresee primary legislation and mandatory disclosure requirements being in place until 2023, at the earliest. Without mandatory disclosure, the government may not be able to get a clear and complete view of the market and action taken within it. This will impact the government's ability to assess the impact of the policy on consumers and the market, and its contribution to meet the target of the Clean Growth Strategy, and under Carbon Budgets 3 and 4. It could also slow the introduction of an effective mandatory target.

We recommend that mandatory disclosure is also established as early as possible. In response to Question 17, we note that the risks associated with an initial voluntary phase may outweigh the potential benefits and the government should consider setting mandatory targets as early as possible. Where voluntary phases are unavoidable the government should use them as an opportunity to work with lenders to continually develop a best practice approach to disclosure.

[5] Citizens Advice, response to Improving the Energy Performance of Privately Rented Homes in England and Wales, January 2021

Question 9. Do you agree with the proposal that disclosure information be subject to spot check audits proportional to the size of the lending portfolio? If not, please explain why, including any alternative proposals.

Yes.

Chapter 2: Improving the energy performance of lenders' portfolios: target-based approach

Question 10. If applicable, is your organisation likely to sign up to a system of voluntary targets? If not, please outline the reasons why.

No response.

Question 11. Do you agree with our estimate that up to 80% of mortgaged stock would fall within scope during the target period? Please provide evidence where available.

No response.

Question 12. Do you agree the voluntary target should be set at a portfolio average of EPC Band C by 2030? If not, please outline the reasons why.

Citizens Advice has two main concerns about setting a target for lenders to achieve a portfolio average of EPC Band C by 2030.

Average vs relative target

The government should consider setting a target based on relative improvement among its portfolio, rather than average portfolio EPC rating as is proposed. A portfolio average approach could risk adverse impacts for consumers and undermine the aims of the policy.

The way the policy is planned provides flexibility to lenders as to how they meet their target. One way is through offering support to borrowers to make energy efficiency improvements, for example: preferential rates for mortgages, additional lending, or secured and unsecured loans. But it also accepts that lenders may wish to also seek to lend to higher performing properties, such as EPC C or above, in order to increase their average score.

The latter approach would do little to help achieve the aim of the policy. The stated aim of the policy is to significantly improve the energy performance of mortgaged properties in the 2020s. This aim is intended to support several other government aims[6]:

1. Deliver substantial emission reductions, which will help to meet our Carbon Budgets 4 and 5 and support a decarbonisation pathway consistent with our net zero target

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[6] BEIS, Improving home energy performance through lenders: consultation, February 2021, page 9

2. Increase the quality, value and desirability of homeowners' assets, while reducing energy bills and ensuring warmer homes
3. Help pave the way for the UK's transition to low-carbon heating by reducing demand and preparing homes for the installation of low-carbon heating measures
4. Support investment in high quality home retrofit jobs and skills in the supply chain across England and Wales
5. Provide greater energy security, through lower energy demand on the grid, and reduced fuel imports.

Achieving these aims will require support to go in particular to the lowest performing properties, which often are also relatively expensive to improve. It is for these properties that energy efficiency measures will bring the greatest benefits, in terms of comfort and wellbeing, lower costs, and reduced risk of fuel poverty. They can also achieve the highest emissions reductions, and receiving improvements will help ensure that these homes are not prevented from being able to access new low carbon heat technology which is necessary as part of the Net Zero target by 2050.

If properties in Band D and below are not incentivised to make changes through no or low cost finance, it poses a significant risk that the properties that would most benefit are in fact not improved, and energy costs and fuel usage remains high.

Homes can be considered within the following 4 groups:

- **Group 1** - Band A and B properties
- **Group 2** - Band C and D properties
- **Group 3** - Band D-G properties which can be retrofitted to Band C or above
- **Group 4** - Band D-G properties which cannot be retrofitted to Band C or above.

To achieve its aims, this policy would need to particularly help improve homes in:

- EPC Band C and D (group 2) with cost effective measures to achieve Band C and above
- EPC Band D-G (group 3 and 4) to as high an EPC as possible while remaining cost effective

For hard to treat properties (group 4) this means undergoing improvements even if EPCs still fall short of EPC C, given the positive impact this can have on both energy costs and reduced emissions.

However, the proposed policy incentives could instead drive preferential rates for borrowers with higher performing properties and greater ability to take on additional borrowing, and less competitive rates or refusing to lend to borrowers with poorer performing properties. In other words:

- lenders retaining borrowers in their portfolio who have Band C properties and above (Group 1 and 2) at the expense of other borrowers (Group 3 and 4)
- lenders choosing not to lend to poorer performing properties (Group 3 and particularly Group 4)

This would contradict the aims of the policy when those with poorer performing homes would benefit the most from energy performance measures.

The current average target proposal which allows lenders to meet the target flexibly, risks incentivising these undesirable outcomes relative to more desirable and fair outcomes.

It also:

- gives an advantage to lenders who already have better performing portfolios and are not therefore required to make as much progress or surpass the target
- disadvantages those lenders who have poorer performing portfolios and have significant progress to make.

The policy should incentivise all lenders equally to make significant progress in improving the mortgaged housing stock as a whole. Otherwise the policy will be both inefficient and could arbitrarily affect competition between lenders.

A **relative target** would better incentivise the fair and positive outcomes, meet the overall aims of the policy, and avoid negative consumer and market impacts.

For example, all lenders could be set a target based on the total accumulated SAP point increases they have achieved in properties in their stock between now and 2030. Lenders would be judged on their contribution to improving properties, rather than the portfolio they hold in 2030.

This would put all lenders on a level starting position as it is likely that regardless of the current energy performance of their housing stock, all lenders would have significant scope to lend to improve properties in Groups 2-4. It would also strongly incentivise lenders to provide preferential rates and lending to borrowers in these groups. This would meet the aims of the policy and ensure that energy demand and costs fall for those where they are highest.

Targets would be expressed in total SAP improvements and be weighted according to portfolio size.

Relative targets would remove incentives for lenders to retain borrowers with high performing EPC properties at the expense of those with poorer performing properties. Instead, a relative target would encourage further and continuous improvement of the mortgaged housing stock.

A relative target would also make better allowances for churn in lenders' portfolios. Under a relative target a lender would be incentivised to ensure poorer performing properties are improved regardless of whether that borrower remains with that lender by 2030. A relative target would also allow lenders to accumulate improvement against a target in a continuous way, encouraging competition.

A relative target would provide incentives for preferential rates and lending across all EPC performance bands where improvements can be made, and adds additional incentives where the biggest improvements are possible. This would meet the aims of the policy, encourage a worst-first principle, ensure fairness for consumers and ensure the policy is cost-effective.

We recommend that BEIS determine the amount of improvement that is required by 2030, to meet its aims in combination with other policies, and consider setting relative targets which are proportionate to the size of lenders. This level should align with the Climate Change Committee's recommendations for the sixth Carbon Budget and the Government's target for as many homes as possible to be upgraded to EPC Band C by 2035.

SAP score

It is also our view that the proposed SAP score is not ambitious enough. The proposed average target uses a mean average SAP point score of at least 69. This is the minimum SAP score within the EPC C Band. We consider that this ambition is too low and runs the risk of the owner-occupier sector making less progress than needed between now and 2030.

The recent consultation to improve the Energy Performance of Privately Rented Homes in England and Wales set a minimum level of Band C (SAP 69) by 2028. A minimum band C is also the basis of the fuel poverty target for England and the government's ambition for all homes in the Clean Growth Plan. Using the same score level represents a much lower level of ambition, when it is an average, as in the proposals, rather than a minimum, as many homes covered by the policy will remain below this level. This issue would be avoided if a relative target approach is taken. If an average score approach is taken then we suggest this target is raised, for example to the mid-point of the C Band or above.

As we have raised in previous submissions to BEIS and MHCLG we have concerns about the current quality of EPCs[7] and more needs to be done to ensure their quality and accuracy.

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[7] Citizens Advice, response to BEIS and MHCLG: Call for evidence on EPCs, October 2018

Question 13. Do you think a revised EPC should be required to demonstrate improvements in energy performance? If not, what alternatives should be explored?

We agree that revised EPC assessments will be required to demonstrate the new energy efficiency of a property. This is needed to provide assurance to consumers and lenders that the cost of making improvements to the home have resulted in the expected EPC improvement and to show whether lenders have fulfilled their target.

It may be possible for other processes for example, through Trustmark to provide documentary evidence of measures which have been installed and to make modelled assumptions of new EPCs. However, we recommend that revised EPCs are the preferred method at least until alternative methods have been tested. We also note that updating EPCs have additional benefits in terms of:

- Providing current and future residents with up-to-date information about the property
- Improving data on the housing stock

Question 14. Do you agree that an assumed maximum spend for improvement works should be set at £10,000? If you do not agree, please specify what you believe would be the most appropriate level to set the threshold, providing evidence to support your views where possible.

We welcome the proposal for a £10,000 assumed maximum spend. This would ensure that the majority of properties are within scope of the policy. Due to the expected distribution of the costs, as shown in the consultation document, any maximum below this would significantly reduce the number of homes improved and the effectiveness of the regulation in achieving its aims. The CCCs sixth carbon budget also presented evidence that suggested 95% of homes would be required to spend less than £10,000 on energy efficiency retrofit measures in order to meet the balanced pathway to 2050[8]. This suggests that the assumed maximum of £10,000 will be sufficient for the majority of homeowners.

However, the analysis for a £15,000 spending cap for the private rented sector gave a much greater net present value than a £10,000 cap[9]. Therefore, we are keen to encourage the government to consider the benefits of a £15,000 assumed maximum spend.

[8] Element Energy, Trajectories for Residential Heat Decarbonisation, December 2020

[9] Citizens Advice, response to Improving the Energy Performance of Privately Rented Homes in England and Wales, January 2021

Citizens Advice welcomes the proposal that the assumed maximum spend is not a cost cap and that the policy does not prevent borrowers accessing lending above this amount where they wish to. It's important that consumers have flexibility to make improvements at a cost that is affordable and appropriate for the property.

We recommend BEIS also consider setting additional requirements on lenders to provide support where households would need to access more funding than is affordable to make the necessary improvements to the home. For example this could include supporting householders to access funding such as the Green Homes Grant, ECO, Nest, the future Home Upgrades Grant (HUG) and other schemes, with new support options being introduced to fill any gaps in provision. It is important that lenders do not see their role in improving housing stock in isolation from the other policies and support schemes and are able to provide support that integrates with these schemes.

Question 15. Should spend from April 2021 onwards count towards the £10,000 assumed maximum spend on improvements? If you believe an alternative date would be more effective, please set out the reasons why.

Citizens Advice agrees that recent spending on home improvements which improve the energy performance of the property should be included in the assumed maximum spend. The start of the policy would be an appropriate date for this. It is important that consumers face the appropriate levels of incentives to improve their homes but incentives do not lead to disproportionate borrowing by consumers.

Question 16. What actions could the government take to incentivise the lenders to sign up to a voluntary target? Please provide evidence to support your answer where possible.

No response.

Question 17. Do you agree government should consider the option of setting a mandatory improvement target, should insufficient progress be made under a voluntary scheme?

Citizens Advice agrees that, as under the government's preferred option, a mandatory improvement target should be put in place if insufficient progress is made under a voluntary scheme. Given certain risks associated with an initial voluntary phase, the government should also consider the possibility of moving straight to a mandatory scheme.

The consultation indicates that the government expects this policy to play a key role in improving the energy performance of homes over the 9 years the policy is intended to be active. All the government's modelled trajectories in the consultation impact analysis indicate an expectation that the policy will require a mandatory target to be implemented by 2025. It is also unclear from the impact assessment whether the prior voluntary phase itself brings any significant benefits.

While it may bring limited benefit, there are risks associated with an initial voluntary phase. These include some lenders choosing not to take early action and resulting adverse impacts on competition. To mitigate this the consultation proposes measures to incentivise early action, such as a system of credits for leading performers. However, we are concerned that an initial voluntary phase is also likely to delay the installation of measures and create additional uncertainty.

Given these risk issues and the unclear potential benefits, it may be in consumers interests for all lenders to be set mandatory targets as early as possible. This would provide clarity to the sector, drive effective competition where all lenders are subject to the mandatory target, and provide certainty on the pathway to 2030.

Please also note our response to Question 12 where we indicate that we think a relative target would better meet the aims of the policy than the proposed average target. Under a relative target, incentives are likely to be experienced equally among all lenders, reducing the risk that some lenders make early progress and others do not. This may alter the trajectory suggested in the consultation.

Question 18. Do you agree with our proposed approach to the penalty regime? If not, please explain why, including any alternative proposals.

Citizens Advice agrees that under any mandatory target regime, penalties will be essential to provide adequate incentive to lenders to meet targets and comply with other requirements.

We agree that penalties should be reasonable, deter lender non-compliance and obtain fair outcomes for consumers and society. We support the consideration of penalties being associated with the societal impact of lost carbon savings from missing targets. However, lost carbon savings only represent one part of the costs of non-compliance; it is also worth considering the avoidable spending on energy for homes had they been improved. There is also a potential cost to government if policies are required to support remaining homes to meet EPC by the Clean Growth target of 2035, and to meet the balanced pathway to Net Zero.

Question 19. What public tools could be used to calculate foregone emissions savings so that lenders can assess their own liabilities?

No response.

Question 20. Do you agree that the money collected from penalties be used to fund energy performance improvements? Please provide evidence to support your answer.

Citizens Advice support the proposal to use money collected from penalties to fund energy performance improvements. This reflects the approach with supplier targets, like the Energy Company Obligation, where fines for non-compliance are put into schemes to help energy consumers.

We recommend that this money should be used to treat those homes which may otherwise be exempted for affordability reasons, homes that have the poorest energy performance, or fuel poor households.

This system would be most effective if penalties are applied on an ongoing basis, for example at milestones on the pathway to the 2030 target. This ensures money is invested in improvements along the pathway, rather than being accumulated in 2030. This would require setting milestone targets whether using an average EPC target as proposed or a relative target. Such targets may more generally be useful to benchmark progress towards the target.

There is a risk that lenders may simply price the risk of penalties into their lending rates, as they would with the risk of mortgage defaults. This would mean consumers ultimately pay for the penalties in addition to paying for energy efficiency improvements. This would not be a fair approach and may weaken the incentive for lenders. We recommend that the policy stipulates that lenders must source penalties from shareholders rather than any other capital or operational finance to ensure that the practice of lenders does not penalise consumers.

Question 21. Do you think that only those lenders that are on trajectory to meet their target should benefit from these funds?

Yes. The funding could also support other policies or schemes to help people who would otherwise struggle to pay for energy improvements to their home.

The policy should nevertheless ensure that those not on track to meet their target are still obligated to provide support and referrals to borrowers who are fuel poor or are exempted from the portfolio target. Consumers who may already be struggling with fuel bills and are at their borrowing limit, should not be disadvantaged or face further barriers as a result of their lender's behaviour or rate of progress.

Question 22. Do you agree that lenders below a certain value or size threshold should benefit from certain derogations from a mandatory target? If so, what form should these take and how can we avoid creating any policy loopholes?

Citizens Advice believes that derogations from a mandatory target should only be established if strong evidence demonstrates that the costs of meeting the targets are disproportionately high for smaller lenders, or they face additional or different barriers to larger lenders which make meeting the targets significantly more difficult. Derogations could be complex to administer, provide adverse incentives and affect competition and so should only be used where there is strong evidence to support it.

We state in response to Question 12 that we consider a relative target to be the best way of meeting the aims of this policy in a way that avoids a range of negative outcomes for consumers. A relative target would provide all lenders, regardless of size, with the same starting position as they would be judged on their contribution to improving properties, not on the average EPC score of their portfolio in 2030. Derogations under a relative target are unlikely to be needed as we would expect all lenders to have scope to improve the EPC scores of properties they lend to in a way that is proportionate to their size or value of portfolio, and their long term business plans.

If evidence does suggest that derogations for particularly small lenders are required, then the government should consider introducing a buy-out option for these lenders, and provide additional support to their customers.

Question 23: Do you agree with the proposed alternative option of a mandatory target of a portfolio average EPC Band C by 2030 from the start of the policy? If you disagree, please explain why, highlighting any alternative target you think would be appropriate.

We state in response to Question 17 that a voluntary target phase should only be implemented if there is strong evidence it provides additional overall benefits compared to a mandatory target from the start of the policy. Overall benefits should consider whether a voluntary phase delivers:

- A fairer mortgage market where borrowers who would benefit the most from home energy improvements have access to low-cost finance
- More homes achieving better energy performance and at lower cost to consumers
- Higher quality installations
- Fewer risks including adverse impacts on consumers
- Greater chance of achieving the target of the Clean Growth Strategy for as many homes as possible to be upgraded to EPC Band C by 2035, where practical,

cost-effective and affordable, and the fuel poverty target for England to improve as many fuel poor homes as is reasonably practicable to a minimum EPC Band C by 2030

Where these additional benefits are not clearly identified, we consider a mandatory target from the start of the policy to be most appropriate.

As we state in response to Question 12, Citizens Advice believes that a relative target is the best way of meeting the aims of this policy in a way that avoids a range of potential negative outcomes for consumers and the market. A relative target would more clearly incentivise lenders to lend in a way that delivers as much energy performance improvement to as many properties over the course of the policy. If the relative target was set appropriately, we do not currently see clear justification or requirement for the target to be implemented with a voluntary phase.

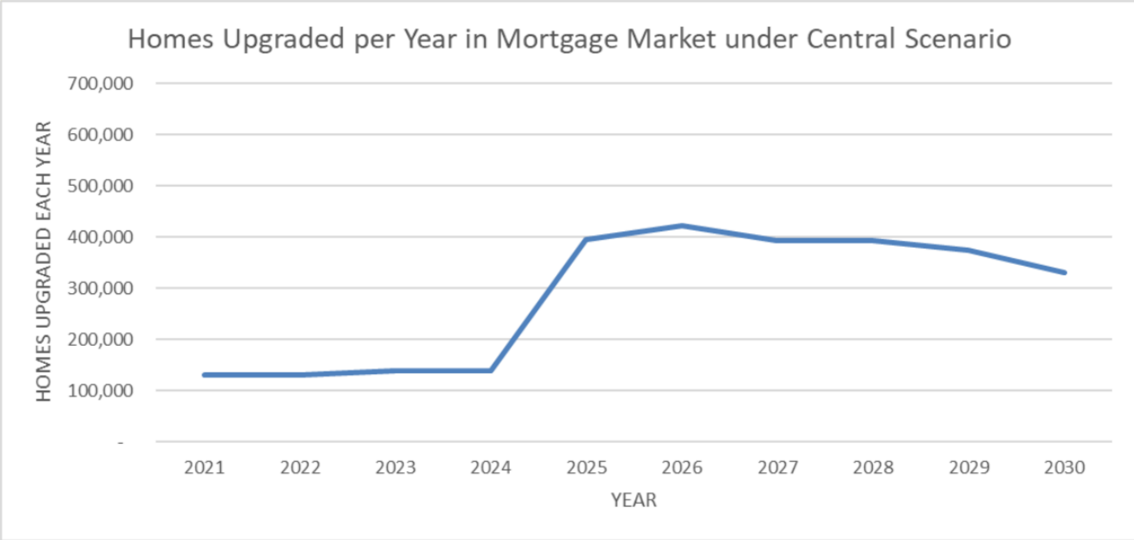
A mandatory target from the outset would best enable all lenders to make long term plans and pathways to achieving their individual target, and in a way that is realistic for the supply chain.

Initial customer feedback and publicity about the Green Homes Grant suggests that the supply chain for low technologies is already unable to meet demand, at least in certain geographical areas. As of the 26th January 2021, 906 installers were registered for the scheme in all of England[10]. We support the use of Trustmark in the Green Homes Grant due to the additional consumer protections and confidence it can provide consumers compared to sourcing installers in the open market. As indicated in response to Question 29, we also support its inclusion as a requirement for works carried out under this policy.

The central scenario presented in the consultation's impact assessment (Figure 6 copied below) assumes a near three-fold increase in the number of properties upgraded between the end of the voluntary target phase and the start of the mandatory phase. Unless incentives under the voluntary phase are strong enough to encourage lenders to spread this improvement more evenly, there is a risk that the supply chain may not be equipped to handle such a dramatic increase. This could put installation quality and consumer protections at risk.

[10] Parliamentary Written Question 143728

Figure 6: Mortgages Affected Per Year



Given these risks, we recommend that mandatory targets would provide a better level of clarity and certainty to lenders to make these long term decisions and to spread improvement more evenly.

Wider considerations

Question 24. These policy proposals rely on the information provided by the EPC. Are there any impacts of data collection using EPCs that we have not considered? If so, how could these be managed effectively by lenders?

No response.

Question 25. What are your views on the likely impacts of requiring an increase in the EPC coverage of portfolios on: a) lenders; b) consumers; and c) EPC assessors?

Up to date EPC information will be essential to inform decisions made by consumers and lenders.

The Government's consultation on EPCs acknowledged concerns about the consistency of quality and accuracy of some EPC assessments. There is a risk to consumers, lenders and government that if enforcement of the quality of EPCs is not sufficient and EPC assessors are not fully independent, there could be adverse incentives to over or under report the performance of properties to align with lending products and opportunities on offer. We recommend that steps are taken to ensure that EPC assessors are independent from lenders, alongside wider measures to ensure the reliability of EPC assessment through the EPC Action Plan, including:

- Better monitoring and benchmarking the reliability of EPCs
- More effective compliance and enforcement action against assessors producing sub-standard EPCs

The consultation considers the possibility of near-live EPC data. Citizens Advice agrees that this would provide the best information to lenders and consumers with which to make decisions.

Question 26. How can we ensure the effective transition of data between lenders when consumers change mortgage providers?

No response.

Question 27. Are there any additional ways in which government or lenders could raise consumer awareness of their EPC data and how to improve the energy performance of their homes?

Consumer awareness of the home energy improvements needed to reach Net Zero is low[11]. Improving awareness, and giving consumers the confidence to make a significant investment in their home, will require a suite of measures. This includes better leadership and communication from government, clearer consumer protection measures, use of trusted intermediaries, and better advice and support[12]. Providing EPC data to consumers, including through relationships between lenders and consumers is just one part of this.

Citizens Advice has called on the government to introduce a Net Zero Homes Guarantee to ensure that consumers are informed, protected and supported to make changes to their home[13].

The government needs to ensure that consumers can access high quality independent advice about the changes they need to make their homes more efficient or switch to a different heat source. This should include holistic advice tailored to the energy efficiency and low carbon heat needs of individual homes.

One part of this is likely to be an easily identifiable and trustworthy central information hub. The current Simple Energy Advice website, although in the early stages of development, could evolve to fill this need. But this will need to be supported by tailored advice. Consumers could be faced with making borrowing and home improvement decisions at the same time under this policy in a way that has not been previously incentivised. In these instances, touchpoints with lenders and third party intermediaries such as brokers or price comparison websites may inform consumers decisions about one or both. In these instances, government should ensure that information and advice about not only energy efficiency but also the options available to finance the supply and installation of household energy efficiency measures and green heating solutions, is provided to consumers via third party information and advice from high quality independent energy efficiency advice sources. Lenders will also have a role to ensure that consumers can simply and easily access this advice.

Government should also consider how to promote lenders' EPC data as part of a national campaign (alongside local, community based support) to explain the Net Zero Homes Guarantee, and encourage people to engage with making improvements to their home. This should use trusted channels and provide particular support to vulnerable

[11] Citizens Advice, Zero Sum, January 2020

[12] Citizens Advice, Energising Homeowners, 2016 and Navigating Net Zero (forthcoming)

[13] Citizens Advice, Net zero homes guarantee How to support people and improve the nation's homes, June 2020

consumers. It should explain to consumers how to identify reputable service providers, and where they can go for independent advice and redress.

Question 28. Are there any ways in which lenders could help to encourage the installation of smart meters in the homes of those to whom they lend?

Citizens Advice supports the smart meter roll-out and recognise the role smart meters will play in the future energy system. While there may be ways lenders can encourage the installation of smart meters, it is important that consumers retain choice. We recommend that any encouragement from lenders should be in the form of information, advice and related support, and that smart meter installation should not be a condition of lending decisions.

Question 29. Should works carried out to comply with these policies require that mortgagors choose a TrustMark approved provider or installer?

Yes. We agree that to comply with these policies borrowers should choose a Trustmark approved provider or installer.

Energy efficiency work has too often been undermined by poor quality installations and other shortfalls in consumer protection. Calls to Citizens Advice's national consumer helpline demonstrate the problems consumers still face with home energy installations[14]. We are pleased to see BEIS has acknowledged the seriousness of these issues and started to take action[15].

This policy and other policies, like the proposed private rented sector regulations, will lead to a significant increase in the number of home energy installations in coming years. Without additional protections, this could see a significant increase in consumer problems, like damp and cold conditions for homeowners and tenants, and expensive, long-term damage to properties. These issues would also undermine consumer confidence and engagement in home energy improvements.

The Each Home Counts review[16] set out a range of measures that together could address quality problems. Many of these have been taken up by Trustmark. Key measures included:

- A single quality mark for all energy efficiency and low carbon home improvements

[14] Citizens Advice, Blog: Net zero will require big changes in our homes — we need consumer protections to match, 2020

[15] BEIS, Energy Company Obligation (ECO3): improving consumer protection, 2019

[16] BEIS, Each Home Counts review, 2016

- A clear redress process with minimum timescales and minimum standards for guarantees
- Improved standards for installation, through improvements to PAS 2030
- Introduction of the retrofit coordinator role, through PAS 2035 to cover the whole lifecycle of a project from assessment, design, installation, and evaluation, to help avoid unintended consequences
- Improved compliance and enforcement, with stronger oversight of certification bodies

Using TrustMark installers in energy efficiency programmes is a key way to ensure that households receiving measures are protected, and the issues outlined above are addressed. However, while Trustmark is a key protection, the government needs to do more to make sure that the scheme delivers its aims and demonstrates its effectiveness to consumers. At the moment there is too little information available on to what extent Trustmark is improving standards. We support the recommendation of the BEIS select committee, that the government should:

put in place the necessary monitoring and feedback mechanisms to ensure that the TrustMark scheme is operating effectively to provide consumers with adequate protection[17].

While we support a requirement to use Trustmark, in the current market landscape there could be some difficulties implementing such a requirement. This would be particularly likely if the government uses a portfolio average target, depending on how this target was then implemented by lenders.

Trustmark is one quality mark but does not cover the whole energy efficiency market. If it is made a requirement, then in some cases, lenders and, potentially, enforcement bodies would have to determine not just whether or not the property meets the required EPC standard, but who did the work, and when. It is not clear what would happen in a situation where a consumer has installed the measures, but used non-Trustmark tradespeople or builders, rather than a Trustmark registered installer.

This is a greater issue with a portfolio average target. With a relative target, monitoring would be directly related to specific improvements being made at a limited point in time.

These issues would also be overcome by developing a single, comprehensive Net Zero homes protection framework for providers and installers of household energy efficiency measures or low carbon heating solutions. This is more broadly necessary to give all

[17] House of Commons Business, Energy and Industrial Strategy Committee, Energy efficiency: building towards net zero Twenty-First Report of Session 2017–19, 2019

consumers and landlords confidence to install low carbon heating systems or energy efficiency measures required to reach Net Zero.

Lenders could also play another role in ensuring that consumers are protected. Lenders will be in a privileged position to have oversight on types and costs of measures. Lenders could play a role in ensuring that where they are lending for energy performance improvements that costs to consumers are not excessive. This could be facilitated by the exchange of information between BEIS and lenders, for example the database of estimated costs of different energy efficiency measures that BEIS uses in the administration of the Green Home Grants scheme.

Question 30. We understand that there are mortgagors who will not be able to self-fund or borrow. Do you have any evidence that indicates what proportion of the mortgage market these mortgagors represent? Please provide as much detail as you can.

We do not have figures on this proportion. However, it is important to take into account the impact of the COVID-19 crisis on the financial situation of many households, as outlined in response to Question 31.

Question 31. Do you agree that those mortgagors unable to self-fund or borrow to make energy performance improvements should be exempt from inclusion in a lender's improvement target?

Steps should be taken to support those mortgagors who are unable to self-fund or borrow to make energy performance improvements. COVID-19 has led to 6 million householders falling behind on household bills[18]. It is important that lenders balance the right level of incentives for consumers to improve the performance of homes without encouraging some households to take on additional unaffordable debt. It may be appropriate to exempt them from the improvement target. However, it is important that the policy does not leave behind lower income or more financially-stressed consumers in poorly performing and expensive-to-heat properties.

As a minimum we recommend that lenders are obligated to provide referrals and support to borrowers who are exempted. The government should ensure that support is available for these households for example through ECO, the Green Homes Grant, Nest, the future Home Upgrade Grant, and other relevant schemes. We recommend that lenders are obligated to make these referrals and be flexible in lending decisions where a combination of subsisdised support and lending could provide an optimal solution for a borrower and their property requirements.

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[18] Citizens Advice, Excess debts - who has fallen behind on their household bills due to coronavirus?, August 2020

We state in response to Question 12 that a relative target for lenders would better meet the aims of this policy. Under a relative target it may not be necessary to exempt borrowers, especially if lenders are obligated to provide adequate levels of support and referrals. The improvements resulting from referrals could count towards a lenders target, providing a strong incentive to ensure these households get support.

Those least likely to afford additional borrowing may also be facing existing debt issues and struggling to meet energy costs. Ensuring these consumers are able to access finance or support either with a lender or through a government-funded scheme, clearly meets the aims of this policy. It would be contrary to the aims of the policy for these households to be left behind when they may have the poorest performing properties and would benefit the most from improved energy efficiency and lower energy costs.

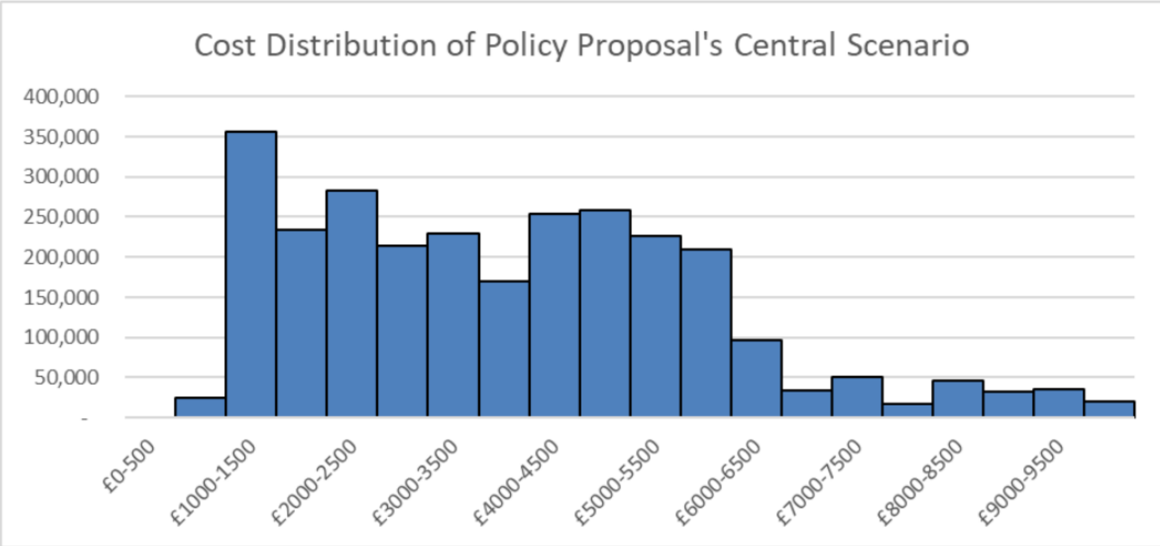
Question 32. How do you think exemptions on the basis of affordability should be assessed?

As stated in response to Question 31, we consider that it may be possible to avoid exempting properties altogether, if lenders are obligated to provide referrals to other energy efficiency support schemes - and if appropriate support exists.

Nevertheless, if exemptions are required, we recommend that these are on a sliding scale to prevent a cliff-edge for those whose affordability and income is near the threshold. Household incomes fluctuate more than ever before, especially as a result of the COVID-19 pandemic. A single threshold is therefore unlikely to capture the reality of household incomes and circumstances.

The consultation proposes that lenders may factor in the proposed £10,000 assumed maximum spend amount into affordability calculations for new mortgagors. Figure 4 in the consultation's impact assessment (copied below) shows that 90% of households that install measures will be able to do so for less than £6,000 with an average spend of around £3,700. It would not be appropriate for affordability calculations for new mortgages to factor in £10,000 assumed spend when this will not be the case for the vast majority of borrowers. This would appear to also disproportionately affect first time buyers who may be more likely to already be at a lenders' affordability limit before additional borrowing.

Figure 4: Cost Distribution



This proposal also assumes that lenders would be providing borrowing through mortgage products rather than the other lending options available to lenders. The consultation should consider how affordability calculations would apply to other secured or unsecured loans.

We consider that any criteria should be established by government to provide consistency for consumers, and kept under review to ensure they are appropriate for both lenders and consumers, and continue to meet the aims of the policy.

Question 33. What other methods of protecting fuel poor mortgagors should the government consider in designing its proposals? Please provide evidence to support your answer where possible.

Please see response to Question 31. Citizens Advice recognises that the touchpoint between consumers and lenders at particularly crucial moments could provide significant benefits to consumers and the energy performance improvement of their homes. We recommend that touchpoints are maximised, especially where borrowers are fuel poor and would benefit significantly from other sources of support.

Lenders should be required to make referrals to all relevant schemes such as ECO, the Green Homes Grant, Nest, the future Home Upgrade Grant, or other support that may be available throughout the course of the policy in England and Wales.

The government should also make sure that consumers have guaranteed access to high quality, independent advice about the options available to finance the supply and installation of household energy efficiency measures and green heating solutions.

Together, these actions should be part of a Net Zero Homes Guarantee framework to help to inform and support consumers, which is discussed in response to Question 27.

Question 34. Do you support the idea of lenders recommending referrals to energy suppliers under a future ECO scheme?

Yes. Please see response to Question 31 and 33. Government should ensure that lenders make referrals to all relevant schemes where borrowers or prospective borrowers may be eligible for energy efficiency improvement support. It should ensure that there are financing and funding solutions that work for all consumers. This must include the availability of grants for consumers on a low income to ensure they are not left behind.

Question 35. Are there any impacts on the protected groups that we have not considered?

Yes. Some groups are more likely to be in fuel poverty. In England, single parents, ethnic minority groups and some younger age groups are more likely to be in fuel poverty[19]. In Wales, single person households and older people are particularly at risk[20]. Where these groups may be more likely to be exempted from this policy for affordability reasons, the policy risks negatively impacting these groups if they are left behind by this policy without adequate alternative support. This impact would not only fail to meet the aims of this policy but also of the government and welsh government's fuel poverty targets.

In England, homes in EPC band D and E are most likely to be in fuel poverty[21], while in Wales these homes are in EPC Band E-G[22]. These homes are likely to achieve the greatest energy cost savings and reduction in emissions as a result of energy performance improvement measures. We therefore recommend that lenders should be obligated to make referrals to energy efficiency schemes and high quality independent energy efficiency advice, to minimise impacts on these groups. We also encourage the government to consider how groups who might otherwise be exempted, could remain as part of the policy's EPC targets and act as an incentive for lenders to actively encourage this process.

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[19]BEIS, Annual Fuel Poverty Statistics Report 2020 (2018 data)

[20] Welsh Government, Fuel poverty estimates for Wales, 2018

[21] BEIS, Annual Fuel Poverty Statistics Report 2020 (2018 data)

[22] Welsh Government, Fuel poverty estimates for Wales, 2018

Question 36. We wish to include leasehold properties in the scope of these proposals in order that their owners or tenants may benefit from energy improvement works. How do you think the government should act to ensure that leasehold properties with a mortgage are captured by these policies, while acknowledging the challenges that need to be overcome?

No response.

Question 37. How can we ensure that we protect groups such as first-time buyers from being disproportionately penalised?

As we state in response to Question 32, the consultation proposes that lenders may take the maximum assumed spend of £10,000 into affordability checks. It also acknowledges that first time buyers are often borrowing at their affordability limit. Government should take steps to ensure that lenders' affordability checks are realistic and do not disproportionately penalise first-time buyers.

Government should also ensure that first-time buyers who are unable to borrow for energy performance improvements, do not face interest rates that are unfairly high or are at a level that prevents first-time buyers from getting a mortgage where they would otherwise have been able to in the absence of this policy.

This may be addressed through existing support available for first-time buyers, or through additional support. As noted in our response to the consultation on minimum standards for private rented homes, the impact of all policies to improve the energy performance of housing need to be considered in the wider context of the housing market between now and 2030. This needs to recognise the fact that properties can move between the rental and owner-occupied markets. Affordability needs to be delivered through a combination of housing, planning and other policies, while delivering the improvements required to meet Net Zero.

Question 38. Are there other impacts these policies could have on mortgage processes that we have not considered? How do we ensure that intermediaries, such as brokers, have access to the information necessary to advise consumers?

Yes. Citizens Advice understands the important role that brokers, price comparison websites and other intermediaries can play in a competitive mortgage market and in advising consumers where appropriate. However, as we state in response to Question 27, consumers could be faced with making home improvement decisions at the same time as borrowing and lending decisions in a way that has not previously been the case on a wide scale.

It is important that consumers have as much visibility and information about new lending products, incentives and options, including through third party intermediaries (TPI) so that they can make informed decisions. However, the government should ensure that advice is provided by TPIs only where they are best placed to do so, and information and advice about energy efficiency is provided to consumers via third party information and advice from high quality independent energy efficiency advice sources.

The government should look carefully at the regulation of TPIs particularly if new types of organisation, beyond mortgage brokers, start to play a role in consumer decision-making in this market.

In the energy supply market we have seen TPIs play an increasingly prominent role, acting to simplify a complex market and increase engagement. They range from helping consumers choose an energy supplier to making decisions on a consumer's behalf, like selecting their supplier for them. Despite their important role there is no direct regulatory oversight of energy TPIs, and consumers can struggle to resolve problems when they arise. We expect TPIs to become even more prevalent in the next 5 years, playing an increasingly sophisticated role in delivering a net zero energy system[23]. The rise of green lending, extending beyond mortgage products, and related incentives, may also create a market for new models of intermediary. The government should make sure that regulation is in place to protect consumers as new models and practices develop.

It is also important that the consumer journey for people seeking first time mortgages, or remortgaging, does not become more complex or act as a barrier to good market outcomes. Where products have energy performance improvement conditions, it is important that this is visible and clear to consumers throughout the journey to avoid wasted effort, time and resources for consumers.

Question 39. How can we ensure that our policies do not disincentivise lending to poor performing properties?

As stated in response to Question 12, Citizens Advice recommends that a relative improvement target, rather than an average target, better meets the aims of this policy. Under a relative target, lenders would be required to meet a cumulative SAP increase score by 2030 as a result of their lending actions, which is weighted to the size of the lender. This would explicitly incentivise lending to poorer performing properties on an ongoing basis as these homes will have the greatest potential to increase SAP scores, and contribute towards meeting the target.

[23] Citizens Advice, Stuck in the middle: How to improve protections for people using energy third party intermediaries, March 2020

The average target proposed gives lenders flexibility in how they meet it. This provides clear incentives to lend to high performing properties, retain those borrowers, and not to lend to poorer performing properties, as acknowledged in the consultation. To prevent this outcome which would negatively impact consumers and fail to meet the aims of the policy, the government would have to build in a number of mitigating measures and policies to ensure that lenders are not incentivised to do this. Given the commercial sensitivity and complex risk assessment involved in lending decisions, we are concerned that mitigating measures may not be able to effectively achieve this.

Question 40. How might these policies impact on house prices and households' ability to borrow in the market? What could the government do to mitigate any unintended impacts on households?

The consultation acknowledges the risk that the policy could lead to those with EPC Band F and G properties being offered worse mortgage rates. However, government expects that as a result of this policy the "market would adjust". It is suggested that inefficient properties could become cheaper creating a system where poor energy performing properties may be more attractive to borrowers who would otherwise be unable to raise additional finance for improvements.

While this may be one outcome of the policy, it is not clear that this scenario helps to meet the aims of the policy. In fact there is a risk that this could disincentivise lenders providing borrowing or preferential rates to these borrowers if they are considered higher risk.

There is also a risk of creating a two-tier property market if the policy drives the market to devalue properties in poorer performing EPC bands. A two-tier property market could create inequalities between those borrowers with less finance who may only be able to purchase poorer performing properties, while other borrowers are able to afford more expensive and better performing properties.

Citizens Advice does not consider this to be a desirable or fair outcome for consumers if lenders and the housing market disproportionately rely on those with lower incomes to borrow more in order to improve the housing stock.

As we state in response to Question 12, we believe a relative target better meets the aims of the policy by providing all lenders clear incentives to lend to poorer performing properties throughout the trajectory to 2030. We do not foresee that incentivising lending to poorer performing properties would lead to a disincentive to lend to better performing properties where risks of lending are already lower and a competitive mortgage market could remain.

More generally, the impact of all policies to improve the energy performance of housing need to be considered in the wider context of the housing market between now and

2030. This needs to recognise the fact that properties can move between the rental and owner-occupied markets. Affordability needs to be delivered through a combination of housing, planning and other policies, while delivering the improvements required to meet Net Zero.

Question 41. How might these policies negatively or positively impact on competition and lenders' ability to operate in the housing and wider market? What could the government do to mitigate any negative impacts?

Under a voluntary average target some lenders may become early adopters and pave the way for others, while some lenders may not initially participate, if incentives are not strong enough. Where initial costs of complying are high this could act as a competitive disadvantage to lenders. We recommend that mandatory disclosure and targets for all lenders would avoid this issue.

Some lenders' starting portfolio score may also be better or worse than others if, for example, a lender has high or low rates of lending to new build properties. This could impact competition if the amount of improvement, action and product innovation required by those lenders is significantly less and there are few incentives to continue to lend to improve poorer performing properties.

We recommend that a relative target better meets the aims of the policy as stated in response to Question 12. A relative target would ensure that targets are weighted and proportionate to the size of lenders regardless of the characteristics of their existing portfolio. This would put lenders on a more level playing field as a basis for competition, and clearly incentivise continual action by all lenders throughout the policy to lend to properties where there is scope for improvement.

Question 42. What costs would compliance with these policies likely generate for lenders? Please provide an estimate of these costs where possible, including evidence to support your answer.

No response.

Question 43. Do you think a regulatory body should be responsible for the mandatory policies in this consultation? If so, what form do you think this body should take?

Yes. Citizens Advice agrees that to ensure compliance and appropriate and fair practice, a regulatory body should be responsible for mandatory policies. It may also be desirable for voluntary policies. The remit of the regulatory body should be wide enough to ensure it covers lenders and third party intermediaries for the reasons set out in response to Questions 27 and 38. It should also have the necessary resources and powers to perform ongoing monitoring of lenders activity, consumers experience, and any adverse market or consumer impacts. It should also have the power to make recommendations to government where policy changes may be required. The regulator should particularly monitor whether 'green' or 'preferential' products developed by lenders are in consumers interests. There is a risk that products could be marketed in a way that appeal to consumers even where there are cheaper alternative sources of lending available. The issue is currently under consideration by the Competition and Markets Authority[24].

To be successful in meeting its aims, the policy must ensure that lenders are incentivised to provide lending for home energy efficiency improvement at lowest cost to consumers in a way that acts as a clear incentive. Careful monitoring will be required to ensure that where the policy does not lead to effective competition that consumers are not negatively impacted. This is especially important at a time when household budgets and incomes have been dramatically impacted by COVID-19[25].

The regulator should also ensure effective auditing of disclosure and reporting against the target.

Question 44. Do you think that the government should introduce a requirement on lenders to check that privately rented properties comply with the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015?

Yes. Citizens Advice believes this requirement would further incentivise landlords to meet the regulations and minimise the risks of some landlords not meeting the regulations.

Question 45. Do you think it would be sensible for these proposals, for example annual disclosure of portfolio-wide EPC information, to be applied to smaller non-domestic buildings that require similar energy performance upgrades to homes?

Yes. There are many similarities between the occupiers of domestic properties and many small non-domestic or mixed-use buildings, especially in their experience of energy costs[26]. However, the occupiers of smaller non-domestic buildings may not have direct control over improving the fabric or performance of the building, where they are

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[24] CMA, Press release: CMA to examine if 'eco-friendly' claims are misleading, November 2020

[25] Citizens Advice, Excess debts - who has fallen behind on their household bills due to coronavirus?, August 2020

[26] Citizens Advice, Closing the Protection Gap, 2019

rented. Disclosure may encourage more consideration by lenders of the energy performance of non-domestic properties and provide greater visibility of the performance of these buildings and their contribution to emissions.

As stated in the consultation, it is expected that disclosure alone would not make a material difference to lending decisions and the energy performance of domestic properties. We recommend the government consider whether policy could make similar improvements through targets for non-domestic buildings.

Question 46. Should a fabric first approach be built into the preferred, voluntary, target option? If yes, how should such an approach best be implemented?

Yes. We agree that a fabric first approach should be required. A fabric-first approach focuses on reducing a property's heat demand, which tends to be the best long-term way to reduce energy bills and tackle fuel poverty. This is recognised by the government in its draft fuel poverty strategy for England.

A fabric first approach ensures that low-carbon heating systems can be installed in a cost-effective way. If a fabric first approach is not built into the policy it could result in a situation where anticipated reductions in energy bills are not possible or not to expected levels. This could undermine consumer trust. For example, installing an air-source heat pump in a home that is not well-insulated would result in more expensive bills due to the heat loss and the low operating temperature of the heating system.

Given the benefits of a fabric first approach, and the risks if it is not implemented, it should be mandatory. The impact assessment for the consultation to improve the energy performance of homes in the private rented sector shows a fabric first approach would tend to be more cost effective for landlords. We therefore expect this requirement to have minimal negative impact, and could prevent significant adverse outcomes for consumers.

It is unclear how windows and doors would be treated if a fabric first approach is taken. They currently sit below low-carbon heating systems in the hierarchy of recommendations made on the EPC certificate. In most cases, this will be appropriate given their long-payback periods. But in homes with particularly poor quality windows and doors, improving their energy efficiency could have a significant impact on a property's heat demand. The government should consider whether certain improvements to windows and doors in certain types of properties should be classed as fabric measures and prioritised above low-carbon heating systems.

One way to help ensure a fabric first approach is the requirement for installations to comply with PAS2035. This would require retrofit coordinators to assess, specify, monitor and evaluate energy efficiency measures and, where applicable, low carbon heating technology. This ensures that optimum methods and materials are used for the property and installation is to a high quality. It also increases the potential for energy use savings and emissions reduction.

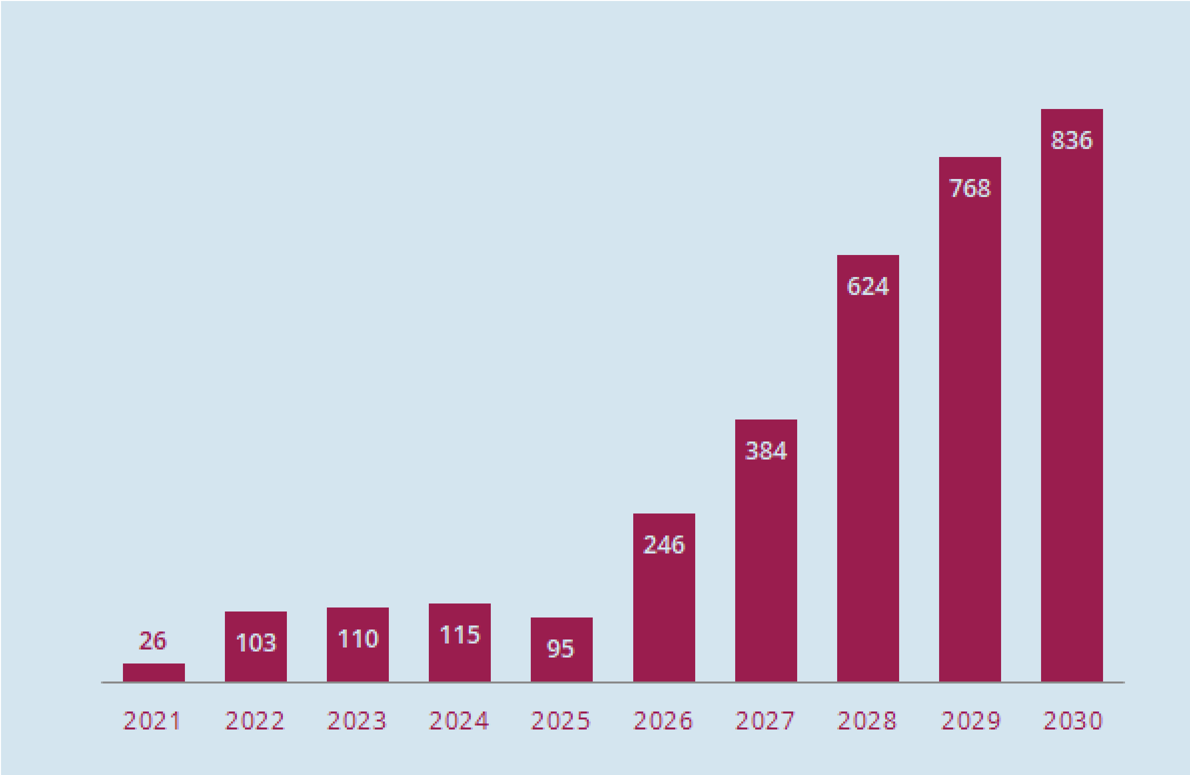
Although this may come at an additional cost to consumers, we note that the impact assessment accounts for the costs of PAS2035 compliance in its modelling and assumed costs to consumers as demonstrated in the chart in our response to Question 32. Mandating the use of PAS2035 would also send an important signal to the supply chain of this long-term skills and training requirement.

Question 47. What are your views on how we could tighten standards to drive greater carbon savings? Do you have views on introducing a dual metric, an alternative carbon target, or any other suggestions?

A dual metric combined with an increased maximum assumed spend of £15,000 could help achieve the carbon reduction aims of the policy, primarily by increasing the number of solid wall insulation and low carbon heating installations. The CCC's sixth carbon budget report indicates that under the balanced pathway there will need to be 5.5 million heat pumps installed in homes by 2030, of which 3.3 million will need to be retrofitted into existing homes. It is expected that a large proportion of these will be installed in homes off the gas grid. By 2025, nearly 450,000 heat pumps will need to have been retrofitted in properties.

CCC Balanced Pathway - heat pump installations in existing homes

Heat pump installation per year in existing homes (thousands)



Source: Element Energy: Trajectories for Residential Heat Decarbonisation

For some homeowners it may be most cost effective and less disruptive to combine fabric energy efficiency measures with low carbon heat measures, where this has been specified by a retrofit coordinator under PAS2035. The policy should therefore ensure that lenders help to support this where consumers are seeking this level of retrofit. It is also crucial that lenders understand the long-term benefits that a retrofit like this can have for properties.

A dual metric which encourages carbon emissions reduction may support lenders to do this. However, as the consultation acknowledges, this option may be unaffordable for many consumers and inappropriate for some properties.

Given the long pay back periods for low carbon heating technologies, the government should consider how the future Heat and Buildings Strategy and schemes like the Clean Heat Grant and the Green Homes Grant could work in tandem with this policy to encourage greater emissions reduction at a more affordable cost to consumers.

Under a dual metric, the government should ensure that an increased assumed maximum spend of £15,000 is not subsequently assumed in affordability calculations by lenders as discussed in response to Question 32. This would adversely impact consumers' ability to borrow.

The consultation also considers a target date earlier than 2030 in order to drive greater emissions savings. If this scenario was pursued, we recommend that a mandatory target is set for lenders from the outset. This would give the greatest clarity on lenders' responsibilities and their trajectory to meet the target. When considering an earlier date the government should take into account the likely supply impact of this and other policies on the supply chain, and the cost and availability of installers. The government should also make sure that there is adequate lead-in time with property owners given appropriate information, financial support and time to make changes to their property, particularly if they may be penalised for not installing measures.

As discussed in response to Question 12, Citizens Advice recommends a relative target is used to meet the aims of this policy. Given the additional incentives this would place on continually improving poorer performing properties, this would also deliver the greatest emissions savings.

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