HOME IS WHERE THE HEAT IS

HELPING TO UNLOCK THE UK'S ENERGY EFFICIENCY MARKET

October 2024

THE SUSTAINABLE HOMES AND BUILDINGS COALITION

NatWest Group

British Gas

WORCESTER

BOSCH

citizens advice

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ABOUT THE SUSTAINABLE HOMES AND BUILDINGS COALITION

In July 2021 NatWest, Worcester Bosch and British Gas, with support from Citizen's Advice, formed the Sustainable Homes and Buildings Coalition. The Coalition's core purpose was to influence policymakers and stakeholders to change their approach to energy efficiency. Instead of relying on top-down governmental programmes, strategies, and schemes, the Coalition has demonstrated that by placing customers at the center of the process, and through empowerment and guidance, meaningful progress can be made in decarbonising the UK's built environment, which accounts for 15% of the nation's carbon emissions.

INTRODUCTION

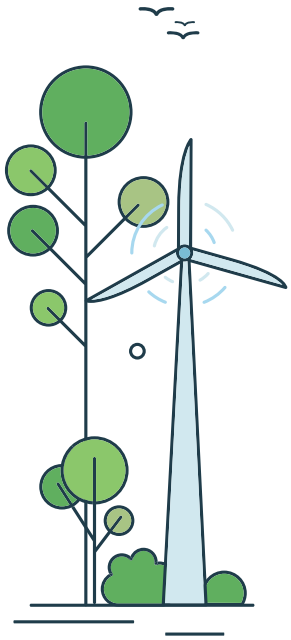
This document sets out the key findings from a multi-year home upgrade project undertaken by The Sustainable Homes and Buildings Coalition. The Coalition was formed ahead of COP26 by NatWest Group with the support of British Gas, Worcester Bosch, and Citizen's Advice. The purpose of the Coalition is to help the Government find policy solutions which can support the decarbonisation of residential homes in a consumer-centric way, whilst understanding and helping to overcome the blockers that have been holding back progress.

Our findings will help contribute to the evidence base that informs the UK Government's decisions as it sets in motion its climate and energy programme, as well as its approach to consumer affordability. The information enclosed has been collated from several sources including the Coalition's own upgrade programme, NatWest's Greener Homes Attitude Tracker (GHAT), British Gas', Unlocking the Net Zero Home: The Net Zero Action Rankings 2024 Report and finally, the data which informed the previous Government's Energy Efficiency Taskforce.

The submission presents new quantitative data on the retrofit process, as well as qualitative data on how consumers feel post-upgrade. Our submission details their experience of retrofitting and the subsequent impact on the cost of heating their home, warmth, aesthetics and sustainability, as well as their enhanced sense of control.

Finally, the document sets out several policy positions and recommendations developed by the Coalition, which we believe are key to ensuring the next decade is one of delivery for energy efficiency. These are based on our first-hand experience and should meaningfully contribute to the Government's economic growth and net-zero agenda.

These are set out below:



1. Meaningfully address the skills gap
2. Develop genuine long-term public-private partnerships with a stable policy environment
3. Explore mortgage and financing reforms to unlock demand
4. Reform EPCs
5. Review Stamp Duty
6. Roll out a public information campaign
7. Advance the legacy of the Energy Efficiency Taskforce

ABOUT US

Since forming the Sustainable Homes and Buildings Coalition, NatWest, British Gas, Worcester Bosch, and Citizen's Advice have worked to support the UK Government to develop a plan of action to decarbonise the UK's housing stock, with consumers always front of mind. Over the last three and half years, the Coalition has published three reports; held numerous policy roundtables across the country; written articles and spoken at relevant industry and policy events. In 2022, the Coalition also funded and oversaw the upgrade of nine properties across the UK.

Throughout this process, the Coalition has sought to raise awareness around the barriers that stand in the way of upgrading the UK's housing stock and the possible policy solutions that could be deployed to make progress in this important policy area. We have worked across every layer of Government, with ministers, council leaders, MPs, peers, and Mayors as well as those that influence them such as think tanks, trade bodies, the supply chain, academia and customers. We've convened frank conversations and advocated for policy changes. In 2022, we were instrumental in helping the previous Government set up the Energy Efficiency Taskforce and getting the Government to commit £6 billion to retrofitting the UK's homes. We welcome the Chancellor's pledge to invest £3.4bn for domestic energy efficiency upgrades, though we know there is more to do. Our intention is to work with the new Government to drive its policy agenda forward.

THE ACTIONS WHICH INFORMED OUR VIEWS:

HOME IMPROVEMENT PILOT PROGRAMME

The Coalition has taken a practical approach to unlock energy efficiency, and help consumers transform their homes. In 2022, we launched our Home Improvement Pilot Programme, designed to identify the key barriers to a nationwide rollout of energy efficiency measures. The programme has funded the retrofit of nine households around the country (located in Pontypool, London, Kent, Swansea, Surrey, Tyne and Wear, Liverpool, and two properties in Merseyside), selected specifically to cover a range of property types, with the aim of mirroring the most common types of dwellings in the UK. These upgrades were completed at no cost to the homeowners, in exchange for access to data and insights surrounding their experience.

LOCAL AND NATIONAL GOVERNMENT ENGAGEMENT

Alongside the Pilot Programme, the Coalition engaged local authorities, including senior figures at the Greater Manchester Combined Authority, West Midlands Combined Authority, Glasgow City Council and the Greater London Authority. In addition, over the past three years, we have engaged in extensive discussions with the UK Government.

GREENER HOMES ATTITUDE TRACKER

The Coalition has leveraged insights from NatWest Group's Greener Homes Attitude Tracker, which is a biannually published survey of 4,500 UK individuals, to understand how homebuyers, renters, and owners feel about greener homes and the importance of environmental features in their (prospective) properties.

In 2022, we were instrumental in helping the previous administration set up the Energy Efficiency Taskforce and getting the Government to commit £6 billion to retrofitting the UK's homes

RETROFIT PILOTS OVERVIEW

The initial phase of the retrofit pilot led to nine households being selected to join the programme. They were chosen to cover the length and breadth of the UK, representing various types of homes in the UK's housing stock, both in terms of build age, and the array of interventions needed to reach an EPC C. These included solar panels, heat pumps and insulation.

Rhonda Winskill & Bryn Stephenson
TYNE AND WEAR
Semi detached 1983–1995
EPC journey: D → B
Retrofit package: Solar PV, air source heatpump, radiator repair, new radiators, smart heating controls

Philip Astbury
ST. HELEN'S
Terraced 1930–1949
EPC journey: C → C
Retrofit package: add in new windows, remove radiator, new boiler

Lauren Sandford & Louise Hamill
LIVERPOOL
Terraced 1900–1929
EPC journey: D → B
Retrofit package: external wall insulation, loft insulation, solar PV, air source heatpump, new radiators

John Bell & Toni Harrison
BOOTLE
Terraced 1930–1949
EPC journey: D → A
Retrofit package: external wall insulation, solar PV, smart heating controls

Lesley Doel & Emma Lewis
SWANSEA
Terraced 1900–1929
EPC journey: E → B
Retrofit package: cavity wall insulation, solar PV, roof room repair/insulation, smart heating controls

Hannah France
PONTYPOOL
Terraced 1900–1929
EPC journey: D → A
Retrofit package: external wall insulation, solar PV, smart heating controls

Clara Paul & Josh Reading
LONDON
Terraced 1900–1929
EPC journey: D → D
Retrofit package: loft insulation, flat roof insulation/repair, smart heating controls

Donna & Andrew McDermott
COULSDON
Detached 1950–1975
EPC journey: D → D
Retrofit package: add cavity wall insulation, new radiators

Linda Parkinson & James Marshall
UPCHURCH
Terraced 1900–1929
EPC journey: D → B
Retrofit package: external wall insulation, solar PV, new double glazing, smart heating controls

To find out more about the retrofit project visit bit.ly/3RPBBLD

ABOUT OUR FINDINGS: WHAT THE DATA TELLS US

To align building energy efficiency demand with the UK Government's Net Zero Strategy, one million homes need to have new insulation by 2030. In addition, over 600,000 heat pumps need to be installed annually by 2028. As heating is responsible for roughly 70% of a home's energy consumption, heat pump installation is particularly crucial. It is estimated that heat pumps are roughly four times as efficient as conventional fossil fuel boilers and if installed, could reduce a building's total energy demand by 45%.

According to the Climate Change Committee (CCC), there are 29 million existing homes that need to be upgraded to low carbon heating systems by 2050. This is complicated by the fact that the UK's housing stock is one of the oldest and worst insulated in Europe. The CCC estimates that an investment of about £250 billion is needed to fully decarbonise homes by 2050, or £9 billion each year from the late 2020s to 2050.

For individual households, both measures offer significant financial savings. According to SSE and University of Oxford research, heat pumps can substantially alleviate costs and reduce the annual household cost of heating an average home to £1200, down from £1800 per year.

> An estimated investment of about £250 billion is needed to fully decarbonise homes by 2050

Insulation is perhaps the most affordable and effective measure for homeowners. According to the Renewable Energy Hub, the average home could save £140 worth of energy with cavity wall insulation. Installing loft insulation can also save £150, with an average pay back period of two years. Insulating homes also shows strong benefits linked to a home's overall Energy Performance Certificate (EPC) rating.

After a substantive drop in 2012, the UK's annual home energy efficiency installation figures have remained low. Installation rates are a fraction in comparison to Poland and Germany, where considerable growth was enabled by strong supportive Government policies, and financial subsidies. Findings from the Energy Efficiency Taskforce demonstrate that for every £1 invested by Government into energy efficiency, the UK could expect a return of £3.20 in GDP growth, whilst bringing in £1.25 in tax revenue for the Government. In addition, the expansion of the broader sustainable energy market could unlock 180,000 green jobs by 2030.

FINDINGS FROM INTERVIEWS WITH CONSUMERS

Beyond quantitative data, the Coalition has sought to understand the qualitative benefits of energy efficiency. While often overlooked, the findings highlight a notable enhancement in the quality of life, emotional well-being, and financial security reported by those who have undertaken home retrofit improvements.

COST, CONTROL & COMFORT

A key benefit of all sustainable home upgrades is the reduction in energy bills. Fundamentally, enhancing a home's thermal efficiency ensures a more stable indoor temperature, decreases the reliance on heating systems, and provides long-term savings. One couple "noticed that the temperature of the house was more stable [and] more constant". This naturally reduces the reliance on energy consumption and heating. One participant also noticed a 94% drop in energy usage at times. In addition, all residents noted clear changes in temperature post-upgrade, an improvement in general warmth during winter periods, as well as a more reliable, stable temperature throughout the day.

SUSTAINABILITY

An important, and often overlooked, result of the upgrades has been consumer fulfillment from the knowledge their homes are more environmentally friendly. One resident demonstrated this clearly: "knowing that all the work we've had to our house is going to make the house more environmentally friendly, more sustainable, is a really nice feeling". One of the most encouraging trends from NatWest's Greener Homes Attitude Tracker is the increasing intent among homeowners to improve the environmental sustainability of their properties. In the latest survey, 23% of respondents plan to undertake green home improvements within the next 12 months, up from 20% in the second half of 2023.

These findings are supported by British Gas' Unlocking the Net-Zero Home: The Net Zero Action Rankings Report. After speaking to 4,016 homeowners, they found that 8 out of 10 homeowners, would be willing to make changes to their own home in order to tackle climate change.

MENTAL AND PHYSICAL HEALTH

The cumulative positive changes to consumers' living conditions facilitate a clear improvement in everyday individual well-being. Consumers noted that improvements in noise-reduction, damp, and aesthetics contributed to improved mental and physical health. One consumer noted their home "is much warmer and it's much quieter too ... much quieter", while their property is "worth more to me personally now...I'm not going to be leaving". Quidos, a UK-based energy accreditation company who supported our home upgrade pilots, believes one of the biggest benefits is making consumers' properties "a lot more comfortable [for them] to live in".

CONSUMER AWARENESS

Consumer literacy around energy efficiency is improving but remains too low. Currently, 40% of respondents view the Energy Performance Certificate (EPC) as a 'very important' factor when purchasing a home, consistent with previous findings. This awareness is not misplaced; according to Rightmove, homes with higher EPC ratings command a significant price premium – up to £56,000 when comparing an EPC F-rated property to a C-rated one. Our findings show that the importance of a property's Energy Performance Certificate has remained relatively stable. Respondents who regard an EPC rating as C or above as either 'essential' or 'highly important' nears 50%.

AESTHETICS

Our pilot has demonstrated that enhanced aesthetics of homes achieved through upgrades increase both the market value and the personal satisfaction of residents, all without compromise to the neighborhood's visual appeal.

ABOUT THE CHALLENGES: PERSISTENT BARRIERS TO RETROFIT

NatWest's Greener Homes Attitude Tracker (GHAT) findings consistently show the overall proportion of homeowners planning energy efficiency improvements has remained broadly stable. In H2 2023, 20% of homeowners had plans to make improvements in the next 12 months. Similarly, those making long term plans for upgrading their homes (1–5 years) remains around 32%. It is clear that while the desire for sustainable home improvements persists, both finance and concerns around disruption remain the main barriers.

FINANCE

The cost of retrofitting has consistently been the top challenge for the past five years. Many homeowners cited both the upfront cost and long-term financial constraints as the primary obstacles (averaging at 70% of respondents across all GHAT data).

DISRUPTION

However, the GHAT data reveals a shift in the concerns surrounding retrofit; the disruption caused by retrofit work is becoming a greater issue for homeowners, moving from the third to the second most cited barrier in H2 2023. This suggests that while financial considerations remain paramount, the practical challenges of home changes are also becoming more prominent in the decision-making process, pointing to the need to scale new, innovative building technologies which provide non-invasive solutions to allow for a less disruptive process.

Data Spotlight: British Gas' The Net Zero Action Rankings 2024 Report

New research from British Gas has also shone a light on some of the key barriers to retrofit:

Similar to the issues around terminology and communication, this data demonstrates the challenge for consumers to understand the variety of government support mechanisms: 56% of respondents said they find the current system of grants and subsidies difficult to understand.

IMPORTANCE OF DATA

The upgrade process has highlighted an increasingly important part of the energy transition: data collection and monitoring of household energy consumption. Understanding the effectiveness of home upgrades and accurately assessing them, is essential in order to guide the future of the energy efficiency industry.

Building on these points, there remains a significant gap in understanding from consumers, and thereby a hesitancy to make home up-grades. British Gas found that, 45% of homeowners are worried about installation costs, and 20% don't have trust in the information regarding which changes represent the best value-for-money. A further 20% are doubtful over the savings on their energy bills would justify the expense.

TERMINOLOGY & COMMUNICATION

In the process of our engagements with both consumers and industry, we have discovered that people are much more receptive to positive language. The term 'retrofit' connotes a big project, which is costly, disruptive, and laborious. Conversely, language around 'home upgrade' is more positive and hopeful, which therefore received better engagement. Building customer familiarity with retrofit terminology is also key to building trust and increasing their willingness to undertake home improvement measures. Finally, a large amount of discussion regarding retrofitting homes focuses on implementing all measures at once which has contributed to skepticism over the process. It is therefore important that all involved in this sector communicate that smaller steps to upgrade homes are valuable and can make a real difference.

THE VIEW OF THE COALITION: CREATING A FAVOURABLE OPERATING ENVIRONMENT

There is a clear need for systemic changes to the energy efficiency industry, to unlock energy efficient homes for all and unleash the growth potential from this sector. This is a goal within reach, and one that has clear benefits for consumers, the private sector, and the Government. Consumers can rest assured that their homes are far more insulated against future energy shocks and the private sector can invest in the clear business opportunity to serve a market of millions. Both of these benefits serve economic and fiscal goals for Government, all while delivering on net zero.

We are making progress, but there is more to be done. The Coalition has welcomed a number of Government commitments over the last parliament and look forward to seeing the additional £6 billion of spending to improve the energy efficiency through the Warm Homes Plan, as well as reforms to EPC ratings – something the Coalition has called for since it was formed back in 2021. However, we need further specific policy revisions to build much needed momentum for a UK-wide home upgrade programme.

Above all, we need to work together – Government and industry – to deliver on our goals. The private sector stands ready to support on the UK's energy and climate goals but needs further Government impetus to make this a reality. Our policy recommendations are focused on creating an incentive-based environment for consumers to double down on their ambitions, and for business to step up and provide the services and products. The Coalition is confident that the following seven policy proposals will make the most difference to ensure the next decade is one of delivery for energy efficiency, and which account for the current delicate fiscal constraints.

MEANINGFULLY ADDRESS THE SKILLS GAP

The UK faces a shortage of skilled workers who are trained to undertake the complex task of upgrading homes to improve energy efficiency. The private sector is committed to playing its role; NatWest, in partnership with the Supply Chain School, is working to develop these in order to contribute to the UK's supply chain resilience. There is a clear window to provide workers in the sector with the opportunity to be upskilled in retrofitting homes under the Government's regional skills programme, Green Prosperity Plan, and the prospective reforms to the Apprenticeship Levy.

DEVELOP GENUINE LONG-TERM PUBLIC-PRIVATE PARTNERSHIPS WITH A STABLE POLICY ENVIRONMENT

The Coalition is supportive of the Government's Warm Homes Plan. However, a clear gap remains in ensuring the policy environment sufficiently supports innovative growth in sustainable green products and services. Investment must scale under a stable and secure economic and policy landscape that is supported by long-term private and public sector partnerships.

EXPLORE MORTGAGE AND FINANCING REFORMS TO UNLOCK DEMAND

There is a growing appetite from the finance industry to provide the right products and services to better enable homeowners to invest in energy efficiency. A key opportunity lies in growing the relationship between public and private sectors to review the existing lending environment and explore financial products. These could be developed and released onto the market with differing repayment terms and timeframes for consumers.

EPC POLICY REFORM

EPCs are in need of reform and it is pleasing to see the Government looking to make progress on this issue. We suggest that the Government starts by amending EPC methodology to ensure it reflects cost and carbon considerations, and mandates that EPCs are updated on a regular basis. As part of this reform, Government should look at greater digitisation of EPCs to support homeowners understand their energy efficiency needs.

REVIEW OF STAMP DUTY

The Coalition is reiterating its call for the Government to review the concept of an 'Energy Saving Stamp Duty Rebate'. This policy would leverage the trigger point of a house sale to provide a window of opportunity for the new owner to upgrade their home, allowing for a reward via a stamp duty rebate and potentially cheaper mortgage rates once a new homeowner had completed the upgrade. The Coalition encourages the Government to review stamp duty to see what more can be done to incentivise and reward homeowners and landlords who invest in energy efficiency measures to upgrade their properties.

ROLL OUT A NEW PUBLIC INFORMATION CAMPAIGN

Further effort is needed to ensure the public is well-informed on all aspects of energy efficiency. A key barrier to retrofit adoption is an individual lack of awareness regarding the variety of available products, the full extent of energy savings from these measures, and the financial assistance options. This awareness must be built using accessible language, emphasising that improvements can occur at each individuals own pace. We urge the Government, in collaboration with industry, to support a new public information campaign that empowers consumers to make beneficial home improvements.

ADVANCING ON THE LEGACY OF THE ENERGY EFFICIENCY TASKFORCE

The Energy Efficiency Taskforce was a clear demonstration of the appetite from the private and third sectors to make real progress on the agenda of energy efficiency. These groups stand ready to work with Government once again to deliver on the ambition of delivering energy efficient, cheaper to run, and ultimately sustainable homes for all consumers across the UK.