ENERGY EFFICIENCY INFRASTRUCTURE GROUP

LEARNING LESSONS FROM THE GREEN HOMES GRANT

AN EEIG POSITION PAPER

A long-term and well-executed green home retrofits programme has much to offer as an economic stimulus, and continued support for all housing tenures will be critical to pump-prime the market to get on track to meet climate targets. The UK Government rightly identified this last year, making large commitments to decarbonise public buildings and homes across the country. While aspects of these schemes have been successful, the administrative problems which led to the axing of the Green Homes Grant voucher have dominated public and political discourse.

In this briefing, the Energy Efficiency Infrastructure Group (EEIG) reviews what happened to the Green Homes Grant voucher scheme, providing an assessment of the fall-out of scrapping the scheme and key lessons to be learned, before setting out next steps to put the UK (and in particular England, where the Green Homes Grant operated) back on track to decarbonise homes across the country. It considers how the Government can build on the positive aspects of the Green Homes Grant voucher and Local Authority Delivery schemes, address administrative issues and move forward to ensure excellent execution to deliver for jobs, climate and the 'levelling up' agenda.

What happened?

Green homes for a green recovery

In the midst of the coronavirus health and economic crisis, in Spring 2020 there was consensus among global experts, industry and governments around the role that home retrofits could play in a green recovery to meet urgent economic, climate, health and resilience goals. A green homes stimulus package was recognised by the EEIG as a route to creating jobs, increasing consumer spending, getting on track to net zero, reducing avoidable pressures on the NHS, and making households and businesses more resilient to public health, economic and climate risks.[1]

The Treasury recognised these benefits and set out a generous offering for green buildings in the Summer Economic Statement,[2] topped up at the Spending Review later in 2020.[3] Certain pledges correlated to funding commitments made in the Conservative's Manifesto (see table below). These constituted the most substantive commitments from the UK Government to a green recovery.

SCHEME	SUMMER STATEMENT	SPENDING REVIEW	TOTAL (TO 2021/22)
Social Housing Decarbonisation Fund (Manifesto commitment)	£50m for 2020/21	£60m for 2021/22	£110m
Home Upgrades Grant (Manifesto commitment)	-	£150m for 2021/22	£150m
Public Sector Decarbonisation Scheme (Manifesto commitment)	£1bn for 2020/21	£1bn extended to 2021/22, new £475m	£1.475bn
Green Homes Grant – voucher scheme and Local Authority Delivery (LAD) Scheme	£2bn for 2020/21: £1.5bn for voucher and £0.5bn for LAD	£1.5bn extended to 2021/22, new £320m. LAD extended to Dec. 2021	£2.32bn
Funding committed overall	£3.05bn	£1.005bn	£4.055bn

[1] These benefits are set out in detail in EEIG's June 2002 report, Energy efficiency's offer for a net zero compatible stimulus and recovery
[2] HMT (2020) A Plan for Jobs
[3] HMT (2020) Green Homes Grant extended for extra year

Off to a rocky start

The Treasury was particularly interested in the short-term economic stimulus impact that a sharp burst of spending on energy efficient and low carbon homes could have. For this reason, the landmark Green Homes Grant (GHG) scheme was scheduled to run only until March 2021, to push money into the economy as fast as possible. The fast turnaround of the scheme may ultimately have proven to be been its Achilles' heel.

In part because of the rapid set-up time, there was limited consultation with industry or local bodies prior to the launch of GHG voucher scheme, which offered vouchers worth up to £5,000 – or £10,000 for low-income households – to cover the costs of a variety of energy efficiency measures and low carbon heating systems. BEIS awarded the contract to run the programme to ICF, a large American consulting corporation, which has over 80 contracts with Government.[4]

Details of the contract have not yet been published,[5] but signs emerged quickly that things were not all well with the scheme. Key challenges included a complicated application process rife with delays for homeowners,[6] late payments to installers, and concerns over mispricing. Delays in issuing vouchers, coupled with an almost complete stop to all non-voucher related work (as customers put off planned work to apply) meant that rather than expanding, some firms had to lay off workers.[7] It appears that ICF's system was both overly bureaucratic and ineffective, leading to delays and other concerns.[8] Industry engaged early with BEIS to encourage an overhaul of the scheme's administration. However, possibly because of the way in which the contract with ICF was drawn up, no changes were forthcoming.

Industry and local bodies step up to deliver

Despite these issues, industry responded to the challenge of delivering this ambitious programme, investing significantly to expand the number of businesses with the necessary certification to be eligible to deliver the measures, ramping up the workforce of existing businesses and promoting the scheme and generating consumer interest.[9] A survey by the Insulation Assurance Authority found that those that did invest on average spent £87,000 getting set up for the scheme.[10] While the voucher scheme was beset with challenges, these were not due to lack of public demand. Polling shows that two-thirds of homeowners in England (62%) were interested in the Green Homes Grant,[11] and 113,000 household applications were made – with 43,500 vouchers issued to the end of March 2021.[12]

The Local Authority Delivery (LAD) dimension of the scheme – which is separately administered – has been comparatively more successful than the voucher element. Allocated £500m in July 2020, compared to the £1.5bn allocated to GHG, the LAD scheme has fully allocated 100% of its funding for Phase 1 and is oversubscribed.[13] The LAD scheme is proving more successful for the climate and for jobs – E.ON has recently announced, for example, that it is recruiting for up to 100 new permanent roles including electricians and roofers, as well as safety assessors and customer service staff. Contracts are already underway in the North East and North West of England and across the Midlands, giving customers about £30 million of lifetime bill savings and reducing carbon emissions by an estimated 220,000 tonnes.[14]

[4] https://www.theguardian.com/environment/2021/jan/26/us-firm-running-eco-grants-scheme-has-won-multiple-uk-government-contracts
[5] What Do They Know? (2021) Green Homes Grant Scheme
[6] The Guardian (2021) Less than 5% of green homes grant budget paid out, Labour reveals
[7] The Guardian (2021) Government plans to turn England homes green 'in chaos' with debt and job losses
[8] https://www.bbc.co.uk/news/science-environment-56552484
[9] https://www.theiaa.co.uk/news/post/is-the-future-of-the-green-homes-grant-voucher-scheme-at-risk/
[10] https://www.recc.org.uk/images/upload/news_282_Industry-Briefing-Note-GHGVSFinal230221.pdf
[11] ECIU (2020) Green Homes Grant demand set to outstrip supply
[12] https://www.gov.uk/government/statistics/green-homes-grant-voucher-release-april-2021
[13] https://www.praseg.org.uk/articles/item/265-the-lad-scheme-delivers
[14] https://www.eonenergy.com/About-eon/media-centre/eon-recruiting-for-100-new-roles-to-support-the-successful-local-authority-delivery-element-of-the-green-homes-grant-scheme/

Administrative failure leads to a funding U-turn

There were rumours in February that the significant underspend from the first £1.5bn tranche of the Green Homes Grant voucher scheme was to be axed – with around £1.4bn unspent.[15] It was stated the Government was planning to only roll over £320 million into the next fiscal year,[16] with the rationale that the Green Homes Grant was only ever intended to be short-lived to help with economic recovery post-pandemic. BEIS spokespeople blamed the low delivery figures on the pandemic for making the public reluctant to let people into their homes – despite the evidence of high demand.[17]

Before the March Budget, there was society-wide push-back[18]– with industry, unions, consumers, fuel poverty organisations and green groups setting out a strong case for the Government to correct the course and deliver for jobs, economic recovery and climate. However, there was no confirmation of the fate of the Green Homes Grant at the Budget. An article by Bloomberg at the time suggested a difference of opinion between officials and ministers at the Treasury, keen to scrap the scheme, and BEIS and Number 10, who recognised green homes as key for making progress towards net zero.[19] This may have been partly driven by different perceptions of what the scheme was for. It grew out of a Treasury desire for 'shovel-ready' infrastructure projects that would push money into the economy as quickly as possible. However, another valid understanding of the grant's purpose was to pump-prime the market for green home retrofits, with the scheme helping build up a critical industry and making progress towards the UK's net zero targets.[20]

On the 27th March, it was announced that the voucher dimension of the scheme was to be scrapped altogether,[21] allowing the Government to step away from its contract with ICF. The National Audit Office has announced that it will be examining the procurement of the contract, as well as the GHG's design, objectives and results, in Summer 2021.[22] BEIS recently turned down a freedom of information request for details of the contract because it intends to publish it in "early 2021."[23] Full details of the contract may well be critical for a full accounting of what went wrong, as ICF have become increasingly seen as the major source of the scheme's failure.[24]

£300 million additional funding was committed to the LAD scheme. Only £320 million for the voucher component was listed for 2021/22, and the government announced that all vouchers not yet redeemed would be paid for with the 2021/22 allocation, meaning almost all of the £1.5bn allocated for 2020/21 would be clawed back by the Treasury and not rolled over or shifted into the LAD scheme (see table below).[25]

[15] The Times (2021) £1.5 billion Green Homes Grant faces axe after a year
[16] Parliamentary Questions (2021) Green Homes Grant Scheme
[17] The Guardian (2021) Green homes grant will meet only tiny fraction of target in England
[18] For example see BusinessGreen (2021) 'Now is the time to invest': Top business groups warn against cutting Green Homes Grant Scheme
[19] https://t.co/dMOqgeh9eg?amp=1
[20] https://www.instituteforgovernment.org.uk/blog/treasury-should-not-axe-green-homes-grant
[21] BBC (2021) Green Homes Grant scheme to insulate houses axed
[22] https://www.nao.org.uk/work-in-progress/green-homes-grant/
[23] https://www.whatdotheyknow.com/request/contract_with_icf_green_homes_gr
[24] https://www.theguardian.com/environment/2021/feb/10/hundreds-of-millions-in-green-grants-for-english-homes-pulled-despite-delays
[25] https://www.gov.uk/government/news/government-boosts-energy-efficiency-spending-to-13-billion-with-extra-funding-for-green-homes
[26] https://www.gov.uk/government/news/government-boosts-energy-efficiency-spending-to-13-billion-with-extra-funding-for-green-homes

New Funding	£300m	Announced at the Budget
GHG V/Net Zero Recycled Funding	£100m	Previously announced in Spending Review 2020
(3a) Previously announced SR20 Funding GHG V	£220m	Estimated spend for 2021/22
(3b) Previously announced SR20 Funding HUG	£150m	Already announced
(3c) Previously announced SR20 Funding SHDF Wave 1	£60m	Already announced
Public Sector Decarbonisation Fund	£453m	Already announced
Total	**£1.3bn**	

Table 1: Summary of government spending on green homes for 2021/22[26]

Assessing the fall-out

While it is still early days to undertake a stock-take of the impact of this U-turn on industry and consumers, it is possible to pick out some likely consequences:

Impact for industry, jobs and SMEs

The UK's retrofit industry has been burnt following previous Government cuts to energy efficiency spending from 2015 – the number of green home installations halved in one year following the end of a home improvement cash-back scheme in 2016, and broader changes in policy have resulted in the number of energy efficiency measures being installed per year dropping from around 700,000 in 2013/2014 to just under 200,000 in 2018/2019.[27] Despite this, industry – including SMEs – invested heavily in the GHG, including the costs of certification and setting up for the voucher scheme.

SMEs are not necessarily well-placed to benefit from increased Local Authority procurement, as schemes like LAD and Energy Company Obligation (ECO) are generally run by larger suppliers. Much of the work is sub-contracted out, but smaller SMEs who work under ECO managing agents are often not on LAD procurement frameworks and are likely to struggle to get on them in a short space of time. The scale of procurement may also be an issue, with large funding pots favouring more geographically and technologically diverse companies.

The voucher scheme, by contrast, appealed to new market entrants involved in building repairs and restoration – the kind of firms that the government hopes will help kickstart jobs growth. These firms are likely to find it particularly difficult to quickly match complex procurement framework standards. As such, the withdrawal of the voucher scheme is a particular blow for ambitions to grow this important sector of the market.

There is also concern that since this is the second failed major Government energy efficiency scheme – following the Green Deal, the coalition government's failed flagship subsidy-free energy efficiency policy which aimed to give homeowner access to finance repaid through savings on energy bills, but which suffered from very low uptake and was terminated early[28] – industry may have further lost confidence in investing in the skills and supply chains needed to retrofit the UK's housing stock, having been bitten twice by boom-bust style policy making. Given that bringing all homes to EPC C would ultimately support 150,000 jobs, it is essential businesses see it as in their interests to engage with government policy.

[27] https://www.gov.uk/government/statistics/household-energy-efficiency-statistics-headline-release-january-2021
[28] https://www.sciencedirect.com/science/article/abs/pii/S2214629616301803#abs0005

Able-to-pay market

With the demise of the voucher dimension of the GHG, there is now a funding and policy gap for the 'able-to-pay' market. At 62% of the UK's 27.2 million households in 2017, owner-occupiers comprise the largest housing tenure, and therefore the largest potential market (by volume) for financing home decarbonisation and climate resilience.[29] With the government committed to consult on introducing minimum energy performance standards for owner occupied homes in 2021, it will be essential that they consider the full suite of incentives and levers for behavioural change in forthcoming policy-making to give homeowners the full support they need to get on track.

Support for low income homes

While the additional funding from the Budget for low income households is welcome, less than half of the authorities in England that are eligible for LAD have bid and/or received any resulting funding. Low income households in these areas will now have no access to any of the funding for energy saving measures, asides from the Energy Company Obligation which provides much more limited support.[30]

Missed opportunities for multi-tenanted properties

Without alignment between LAD support for low-income homes and some degree of support for the able-to-pay, many terraced homes are likely not to see the benefits of energy efficiency, particularly given the challenges of addressing multi-tenanted properties or buildings with a mix of tenure-types.

Climate leadership ahead of COP 26

With the UK hosting COP 26 this November, it is essential the country can demonstrate a green delivery, as well as green words, to add weight behind calls to 'build back better' and greener after the pandemic. Allowing the landmark green recovery measure to fail undermines the UK's authority when engaging with other countries around the need to support similar measures.

What lessons should be learned?

There are several lessons which the Government should take from the Green Home Grant:

→ **Give industry long-term policy and funding confidence to invest:** Industry has now suffered significant setbacks following various stop-start Government programmes on energy efficiency. The National Infrastructure Commission has referred to the damage caused by "frequent, almost arbitrary changes in [government] policy… with numerous and sometimes conflicting aims".[31] We note that some companies chose not to invest in the Green Homes Grant due to the short timelines associated with the scheme – even before it was prematurely ended. A long-term, well financed plan must be announced at the Spending Review to restore confidence to invest in the skills and supply chains needed to decarbonise UK homes. Only a long-term approach can provide the confidence for industry to invest – without it, many will conclude that there will be no opportunity for a return on that investment.

→ **Give schemes time to work and deliver at scale:** Too much was expected too soon from the Green Homes Grant voucher, and while the target to retrofit 600,000 homes through the scheme was set at the correct level, the scheme should have been given longer than 6 months to deliver. Rather than clipping the wings of fledgling schemes, Government should adapt and take the time needed to nurture the skills and supply chains that will ultimately allow them to deliver at scale.

[29] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2017
[30] https://www.nea.org.uk/news/the-green-home-grants-demise-must-prompt-urgent-action-to-help-the-poorest-households/
[31] https://nic.org.uk/app/uploads/Congestion-Capacity-Carbon_-Priorities-for-national-infrastructure.pdf

- **Public demand is there:** The ill-fated Green Deal only supported 14,000 home improvements in its two years of operation. By contrast, the Green Homes Grant has already seen over 10,000 measures installed in under six months, and when all outstanding applications and vouchers have been processed, that number could go up to around 100,000 homes if all the live applications are processed.[32] These numbers likely only scratch the surface of true demand, given the early difficulties many would be consumers found locating eligible suppliers in their area.

- **Work with industry and local partners in scheme design from the start:** Certain aspects of the administrative failures surrounding the grant – such as the overcomplicated application process for households and poor communications with the supply chain – may have been preventable if industry and other actors were more centrally involved in the scheme's design and development. It is also important that organisations like the scheme administrator, TrustMark, and certification bodies are able to share data and compliance and regulatory information.

- **Ensure effective administration:** Going forward, there could be a greater role for expert industry organisations like MCS and The IAA in the administration of the vouchers. This may have made assessing the reliability of quotes much more effective, a service offered by both parties. Further improvements could be made through incorporating recommendations from the Each Home Counts Review, such as a consumer charter and domestic retrofit quality mark, and closing liability gaps throughout the model.[33]

- **Support skills and supply chains:** In order to ensure that supply can meet demand for green home retrofits in all areas across the country, delivering at the scale and pace needed to get on track for climate targets, it is crucial to invest in the skills and workforce that will carry out extensive home retrofits. This includes supporting with accreditations with industry quality standards schemes such as TrustMark, PAS2030 and MCS, and providing sustainable training support which includes the development of appropriate standards. This should be a key aim of the government's new Green Jobs Taskforce.[34]

- **Local Authorities can deliver, given time and resources:** The IFC fiasco adds to the list of high-profile outsourcing disappointments. In comparison, the relative success of the LAD scheme shows that Local Authorities working with industry are often well-placed to meet the needs of local areas. The LAD scheme has shown that Local Authorities are well positioned to support the delivery of green home retrofit schemes. With knowledge of the local built environment and connections to the supply chain, a more locally led delivery of retrofit schemes could be supported going forward – backed up by adequate finance, resources and advice from central government. Additional data collection and analysis – including through Building Stock Modelling and building renovation passports – could assist the understanding of local needs.

- **Ensure high quality service and protection against fraud:** Ensure robust consumer protection and high-quality assurance, working with industry standards schemes such as TrustMark and MCS. Ensure robust fraud protection mechanisms, and address concerns around liability. More effective frame works for the sharing of data would be a helpful first step.

[32] https://www.gov.uk/government/statistics/green-homes-grant-voucher-release-april-2021
[33] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/578749/Each_Home_Counts__December_2016_.pdf
[34] https://www.current-news.co.uk/news/government-sets-sights-on-2-million-new-green-jobs-with-creation-of-taskforce#:~:text=The%20government%20has%20announced%20the,ambitions%20to%20build%20back%20greener.

What next?

There are a number of critical next steps which must be taken to put the UK back on track to decarbonise the building stock, support jobs and regain climate leadership status ahead of COP 26. The following proposals will help regain industry confidence, building the supply chains and market needed to achieve climate targets.

Continued development of the LAD scheme

The Government can continue to build upon the success of the LAD scheme, enabling more Local Authorities to participate and considering how the scheme can be replicated for the 'able-to-pay' market. There is a need to consider the delivery model of the scheme to ensure SMEs can participate in delivery, alongside larger companies. This in turn will further support local economies and jobs.

A successor to the Green Homes Grant scheme and incentives confirmed at the Spending Review

Learning and applying lessons from the GHG, Government must design and implement a successor grant scheme which serves the able-to-pay market. This will involve working closely with industry and Local Authorities to assure the scheme's effectiveness, ensuring a role for SMEs in design and delivery. The Government should signal its intention to do this immediately, showcasing its commitment to a green recovery in the run up to COP 26, with the full package announced at the Spending Review later this year. EEIG estimates that £13.7bn total is needed to the end of this Parliament, with £8.2bn for energy efficiency measures and £5.5bn for heat pumps. The Clean Heat Grant, which the government consulted on in February 2021, is the natural place for the government to scale up an ambitious new grant package, although it is essential that energy efficiency is not neglected.[35]

As well as grants, there is a role for structural incentives for the 'able-to-pay' market, such as Green Stamp Duty and 0% VAT for purchases related to green home retrofits. The latter would be even more effective if applied on all refurbishment – for example new kitchens and bathrooms, and loft conversions – but with the 0% rate only applying when a homeowner upgrades the energy performance of their home at the same time. This would hugely increase demand for energy efficiency and low-carbon heating measures.

Taken together, a combination of grants and structural incentives would pump-prime the market to get on track for climate targets, leveraging additional private finance.

A coherent long-term regulatory, governance and policy framework to create economies of scale

The forthcoming Heat & Buildings Strategy must set out the Government's vision and roadmap for the UK to rapidly decarbonise homes across the country, through new targets, regulations and strategies for each tenure. This will provide the long-term certainty for industry, local bodies and citizens to plan and invest. In order to achieve widespread uptake of low carbon heating technologies and energy efficiency measures, a systems perspective is needed, whereby all relevant actors are understood and motivated to consider coordinated actions – including financial institutions, the construction industry, local government, owner-occupiers, landlords and tenants.

[35] https://www.gov.uk/government/consultations/clean-heat-grant-further-policy-design-proposals

The role of UK Infrastructure Bank

The newly announced UK Infrastructure Bank should provide blended finance - the combination of public and private finance, maximising the impact of public spending while helping to de-risk private finance – for individuals and communities, as well as 0% interest loans, learning from Germany's national infrastructure bank KfW. Investments in energy efficiency measures by KfW motivate building owners to borrow and spend €6, for every €1 invested.[36] The federal government has nearly recouped its outlay through increased VAT revenue alone. The UK Infrastructure Bank can also identify, develop and standardise investment propositions, drive investment flows to regions that need it most, and play a critical role in the governance of long-term decarbonisation strategies, working closely with Local Authorities.

Re-engage with industry and rebuild trust in the market

Future success in improving the energy efficiency of the UK's housing stock will not be delivered solely by existing actors in the market, but it is nevertheless vital that the experience of these existing organisations is called upon in the design of future schemes.

Scaling up supply chains through innovation in social housing and public buildings

Government must continue to invest in Local Authorities, social housing and public buildings – which can act as a launch pad to scale up skills and supply chains which can subsequently be rolled out to serve other tenures, including the owner-occupied sector. Social housing and public buildings can provide the scale needed to give the market confidence, with the potential for ten-year pipelines of work, and benefits from a small number of regulated portfolio owners who are experienced in organising home upgrades.

Learn from schemes across the UK

The Welsh government's Optimised Retrofit Programme, which is investing £20m and aims to upgrade at least 1,000 social homes in its first year with a 'whole house' approach to residential decarbonisation, is likely to be a source of valuable lessons and useful survey and assessment tools.[37] Similarly, Scotland's energy efficiency policy landscape is more developed than England's, with area-based renovation schemes in deprived areas in every municipality, local heat and energy efficiency strategies, and pilots of home equity loans.[38] Scottish per capita energy efficiency investment is four times greater than in England. The UK government should look to learn from the most successful areas in the country as it creates nationwide policies and energy efficiency policy for England.[39]

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[36] https://committees.parliament.uk/writtenevidence/10210/html/
[37] https://gov.wales/social-housing-sector-set-wales-path-decarbonise-thousands-homes-and-boost-green-economic-recovery
[38] https://9tj4025ol53byww26jdkao0x-wpengine.netdna-ssl.com/wp-content/uploads/E3G_2018_07_Silver_buckshots.pdf
[39] https://www.theeeig.co.uk/facts/