ENERGY EFFICIENCY INFRASTRUCTURE GROUP

Better Buildings Investment Plan

Investing in British homes and communities

1 Executive Summary

A long-term Better Buildings Investment Plan for green homes can deliver major benefits for households and local economies across Britain, boosting productivity and underpinning the levelling-up agenda. A sustained drive to boost home energy efficiency can reduce household energy expenditure by £7.5 billion per year to 2030, support 190,000 jobs across a range of trades to 2030, and avoid pressures placed on the NHS by fuel poverty and cold, unhealthy homes – potentially preventing 10,000 excess winter deaths every year and saving the NHS £1.4 to £2 billion annually. Few infrastructure projects can do so much for economic growth: with £2 put back in economy for every £1 spent on a national retrofit strategy.[1] To realise these opportunities and secure the UK's position as an international climate leader ahead of important climate negotiations at COP 26, the Energy Efficiency Infrastructure Group (EEIG) is calling on the Treasury to deliver a cohesive package to drive action, bring down costs and make the transition affordable and attractive for all.

Welcome green homes targets and funding commitments have been made by Government in recent years. However, at present, policies and investment plans fall far short of what is needed to decarbonise homes to the levels required by carbon budgets and the Government's energy performance targets. It will not be possible for the Government to meet its net zero target without substantially scaling action and investment.

The 2021 Spending Review and Budget is the opportunity to get on track. In particular, it is vital for the Treasury to back a long-term package that spurs action and investment from homeowners in the so-called 'able to pay' category – many of whom do not have the disposal income or savings to pay for all upgrades to their homes. As new regulations are expected to come into place, such as a phase out of fossil gas boilers and minimum energy efficiency standards for owner-occupier homes, it is vital that there is support in place for all households through this transition. Those living in the most poorly insulated homes are disproportionately concentrated in the North of England and rural areas[2].

Only a long-term policy and investment plan will provide businesses with the confidence to make substantial, sustained investments in skills and supply chains; driving innovation and lowering the costs of technologies and installations in key markets. A public investment, fiscal and financial package out to 2030 will unlock billions in in existing patient capital and private investment, supported by innovation and the growth of new markets for green financial products and services.

[1] https://www.constructionleadershipcouncil.co.uk/wp-content/uploads/2021/05/Construction-Leadership-Council-National-Retrofit-Strategy-Version-2.pdf

[2] See on savings https://www.bbc.co.uk/news/business-37504449; see on wealth https://ifs.org.uk/inequality/wp-content/uploads/2020/08/Geographical-inequalities-in-the-UK-how-they-have-changed-1.pdf; see on energy efficiency https://www.northern-consortium.org.uk/wp-content/uploads/2018/10/The-Hidden-Costs-of-Poor-Quality-Housing-in-the-North.pdf

1.1 The Better Buildings Investment Plan: key recommendations

To reap the benefits of a nationwide infrastructure drive to support lower energy bills, ensure healthier homes, create jobs and drive down carbon emissions, the EEIG proposes an investment package – the Better Buildings Investment Plan – to be realised through the 2021 Spending Review and Budget. Together, these complementary measures will unlock billions in private investment from households and businesses.

1. **An energy efficiency infrastructure investment – worth an additional £7bn for the remainder of this Parliament – and a future investment plan to 2030 and beyond, providing confidence to businesses and households to invest, levering billions in private capital.**
   The public investment needed is made up of the following elements:
   a) Fully support low income households through fulfilling outstanding Conservative Manifesto commitments to the Homes Upgrade Grant (£2.35bn this Parliament, and increasing the pot size next year) and Social Housing Decarbonisation Fund (£3.6bn to 2030, of which £1bn by 2025).
   b) Get on track for 2030 and make energy efficiency upgrades affordable for all by establishing a new, streamlined grant scheme available for all households – with £3.6bn provided in a 3-year Spending Review, tapering support from 2025.
2. **Pump-prime a mass market for heat pumps through expanding grant support,** such as the Clean Heat Grant, embedding a fabric first approach to ensure necessary energy efficiency measures are installed first. **Provide up to £4.76bn this Parliament,** covering the full costs for low-income households and up to £6,000 to everyone else; introduced alongside additional measures to encourage take-up and create a self-sustaining mass-market this decade.
3. **Pave the way to green finance at scale with attractive incentives that spur action and investment.** This should include Green Stamp Duty and 0% VAT on renovation products and services for greener homes, designed to leverage additional private finance and support new innovative financial products and services which are already being developed by the UK's leading banks and building societies, supporting market growth.
4. **Ensure affordable finance for energy efficient, low carbon homes is available to all through the new UK Infrastructure Bank,** treating home retrofits as an infrastructure investment priority. Offer 0% loans and blended finance through retail banks, with interest offset by the UK Infrastructure Bank and supported by 'cash back' or grants.

These measures must be underpinned by a comprehensive, independent and impartial advice service to ensure that consumers understand what they can do in their home and how measures can be installed most effectively alongside other improvements; the practical steps involved and how they can access funding and finance; skilled installers and the right products.

1.2 The returns on investment for 2025 and beyond

There is a strong economic case for prioritising a green home infrastructure programme at the Budget and Spending Review. A long-term programme underpinned by public capital investment would ensure the wider economic benefits needed for a better recovery are maximised and effectively channelled into the communities that need them most, boosting productivity and supporting the levelling up agenda. Following previous boom-bust policy making, it is important for Government to restore industry confidence by providing long-term certainty over the direction of travel. The Spending Review can address this through a multi-year funding announcement. The benefits of doing so align with Government priorities, including:[3]

[3] See https://www.theeeig.co.uk/media/1099/eeig_report_turning_stimulus_into_recovery_pages_web.pdf

1. **Levelling up by investing in infrastructure, innovation and people:** a long-term programme to get all homes to at least EPC C by 2030 reduces household energy expenditure by £7.5bn per year at today's prices – an average of £400 per home upgraded – and has the biggest impact in regions most affected by unemployment, under-investment and fuel poverty, with disproportionately inefficient housing and high energy bills, thereby reducing north-south and rural-urban disparities in infrastructure, opportunity and living costs.[4]
2. **Stronger recovery by prioritising jobs and skills:** a sustained investment package supports 190,000 jobs in energy efficiency and heat across a range of trades through to 2030,[5] upskilling the workforce to meet the net-zero challenge. By working with businesses, unions and employees, Government can help to ensure green jobs are quality jobs. Underpinned by public investment, the number of net additional jobs created in the wider economy beyond the end of the programme – especially in local retail and services, induced by increased consumer spending – is easily in excess of 100,000.[6]
3. **Improving public service outcomes, including from the NHS:** avoidable pressures placed on the NHS by fuel poverty and cold, unhealthy homes are consigned to the past, potentially preventing 10,000 excess winter deaths every year and saving the NHS £1.4 to £2bn annually.[7]
4. **UK as a scientific superpower:** supported by industrial and innovation strategy, a long-term programme supercharges home retrofit, driving productivity gains. The rollout of digital infrastructure assures the carbon and energy performance of buildings, providing investor confidence for a thriving market in new, green financial products and services. UK construction and financial service providers gain competitive advantage in markets seeking to deliver net zero buildings.
5. **Strengthening the UK's place in the world:** ahead of COP26, the UK announces a home retrofit investment package to close its biggest policy gap to meet domestic carbon budgets, demonstrating how to combine climate action with economic recovery and inspiring other nations. UK-based manufacturers with world-leading expertise in insulation and exterior systems, glazing, low carbon heating, ventilation, air-conditioning and building control systems drive exports well beyond the £8bn seen in 2016.[8]
6. **Scaling green finance:** the new UK Infrastructure Bank leads the reduction of investment risk for decarbonising homes and buildings, reducing financing costs and drawing in capital markets and institutional investors to back new green financial products and services at scale.

2 Understanding the investment needed and the investment gap for this Parliament

2.1 The investment needed

In 2017, the Government set a target to raise the energy performance of all UK housing to at least an Energy Performance Certificate (EPC) rating of C by 2035. Analysis by the EEIG suggests even faster progress – **achieving EPC C by 2030** - will be needed to meet the UK's new ambitious climate targets.[9] With nearly 19 million homes falling below EPC C, the task ahead is substantial. **Seven million homes need to be renovated by the middle of this decade.**

[4] https://ukerc.ac.uk/news/unlocking-britains-first-fuel/
[5] https://www.theeeig.co.uk/media/1099/eeig_report_turning_stimulus_into_recovery_pages_web.pdf
[6] https://www.theeeig.co.uk/media/1099/eeig_report_turning_stimulus_into_recovery_pages_web.pdf
[7] BRE (2015) The cost of poor housing to the NHS https://www.brebookshop.com/details.jsp?id=327671
[8] 2 CCC (2019) UK housing: Fit for the future?
[9] https://www.theeeig.co.uk/media/1063/eeig_net-zero_1019.pdf

Coupled with this is the need to shift to clean heat – with over 85% of UK homes currently fuelled using fossil gas. The Climate Change Committee (CCC) sees heat pumps installed in 75% of existing homes by 2050[10] – **nearly 750,000 heat pumps in existing homes cumulatively to 2025** – as the most efficient investment for decarbonising heat, strongly complemented by energy efficiency upgrades.
Taken together, the package of work required to upgrade the stock constitutes a major infrastructure project and significant investment opportunity. Achieving this requires public and private investment, shifting over time towards the latter. The table below sets out the EEIG's analysis of the total energy efficiency investment needed in this Parliament to get on track and draws on the Regulatory Assistance Project's (RAP) analysis on heat pumps investment.

Table 1: Investment needed in energy efficiency and heat pumps this Parliament (2020/2021 to 2024-2025), by source and targetgroup [11]

<table>
<tr><th colspan="2" rowspan="2"></th><th>PUBLIC INVESTMENT</th><th colspan="3">PRIVATE INVESTMENT</th></tr>
<tr><th>GOVERNMENT</th><th>SOCIAL LANDLORDS</th><th>PRIVATE LANDLORDS</th><th>OWNER OCCUPIERS</th></tr>
<tr><td rowspan="3">Total energy efficiency investment: £28.3bn</td><td>Low-income households</td><td>£8.7bn</td><td>£1.7bn</td><td rowspan="2">£2.1bn</td><td>-</td></tr>
<tr><td>So-called 'able to pay' households</td><td>£4.0bn</td><td>-</td><td>£11.8bn</td></tr>
<tr><td>Total energy efficiency</td><td>£12.7bn</td><td colspan="3">£15.6bn</td></tr>
<tr><td rowspan="3">Total heat pumps investment: £7.3bn</td><td>Low-income households</td><td>£2.5bn</td><td colspan="3">-</td></tr>
<tr><td>So-called 'able to pay' households</td><td>£2.6bn</td><td colspan="3">£2.2bn</td></tr>
<tr><td>Total heat pumps</td><td>£5.1bn</td><td colspan="3">£2.2bn</td></tr>
<tr><td>Total: £35.6bn</td><td></td><td>£17.8bn</td><td colspan="3">£17.8bn</td></tr>
</table>

The gap between ambition and action on decarbonising the built environment – which represents a quarter of the UK's emissions[12] – is significant, with the CCC underscoring the need for long-term clarity of direction, as well as investment and 'enablers' to spur action.[13]

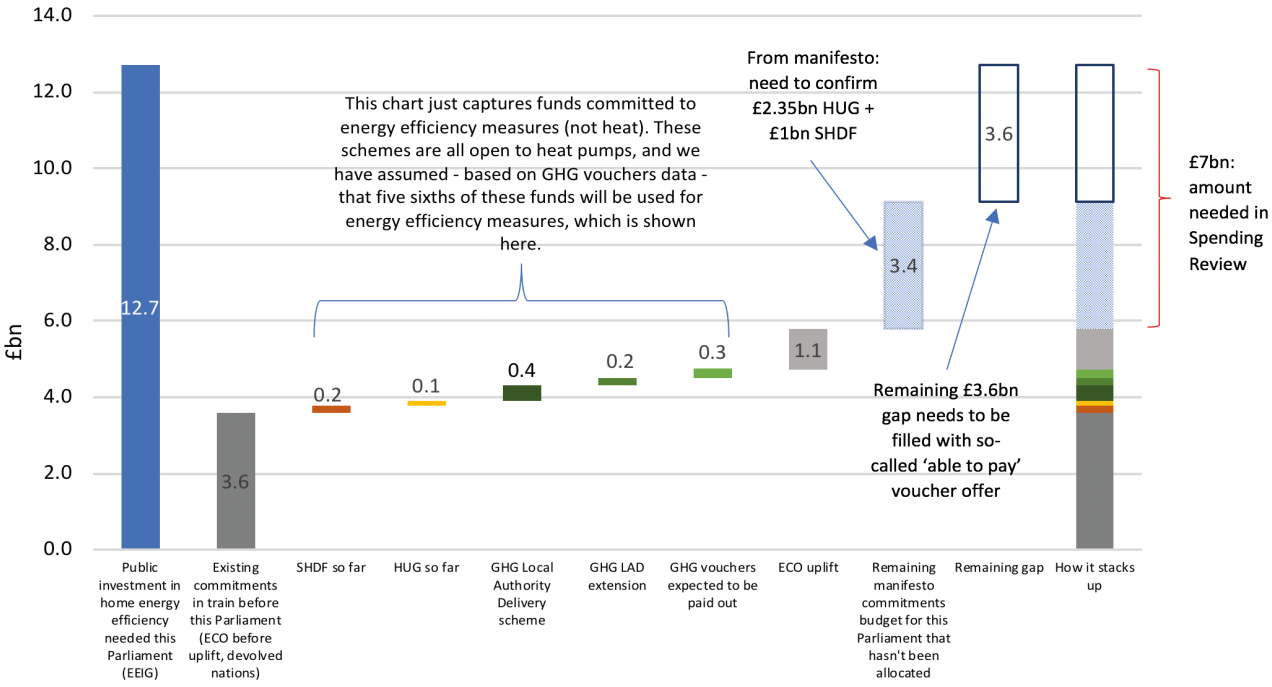
[10] https://www.theccc.org.uk/2021/02/01/the-numbers-behind-the-budget-six-ways-to-explore-the-sixth-carbon-budget-dataset/
[11] Energy efficiency investment figures from: https://www.theeeig.co.uk/media/1101/eeig_report_efficient_investment_0220.pdf; heat pump investment figures from: https://www.raponline.org/wp-content/uploads/2021/03/RAP-Heat-Pump-Policy-0324212.pdf
[12] https://www.theccc.org.uk/wp-content/uploads/2020/12/The-Sixth-Carbon-Budget-The-UKs-path-to-Net-Zero.pdf
[13] https://www.theccc.org.uk/wp-content/uploads/2021/06/Progress-in-reducing-emissions-2021-Report-to-Parliament.pdf

2.2 Public investment gap: energy efficiency

Public investment is required to support to the decarbonisation of homes for those on low incomes, as well as to pump-prime the market and unlock billions in private investment from the so called 'able to pay' sector and provide a clear signal to industry to invest. The EEIG's analysis finds that to get on track for climate targets, a total of £28.3bn investment is needed for home energy efficiency this Parliament, comprising £12.7bn of public and £15.6bn of private investment from 'able to pay' homeowners and landlords between 2020 and 2025.

Commitments have already been made by Government to address the public investment needed and lever in additional private investment. The chart below breaks down existing commitments and highlights the remaining gap, representing the 'last step' of public investment needed to get on track to unlock economic opportunities for net zero this Parliament.

Figure 1: On the home straight? Public investment to support home energy efficiency to 2025 and the remaining investment gap (rounded to the nearest £0.1bn)

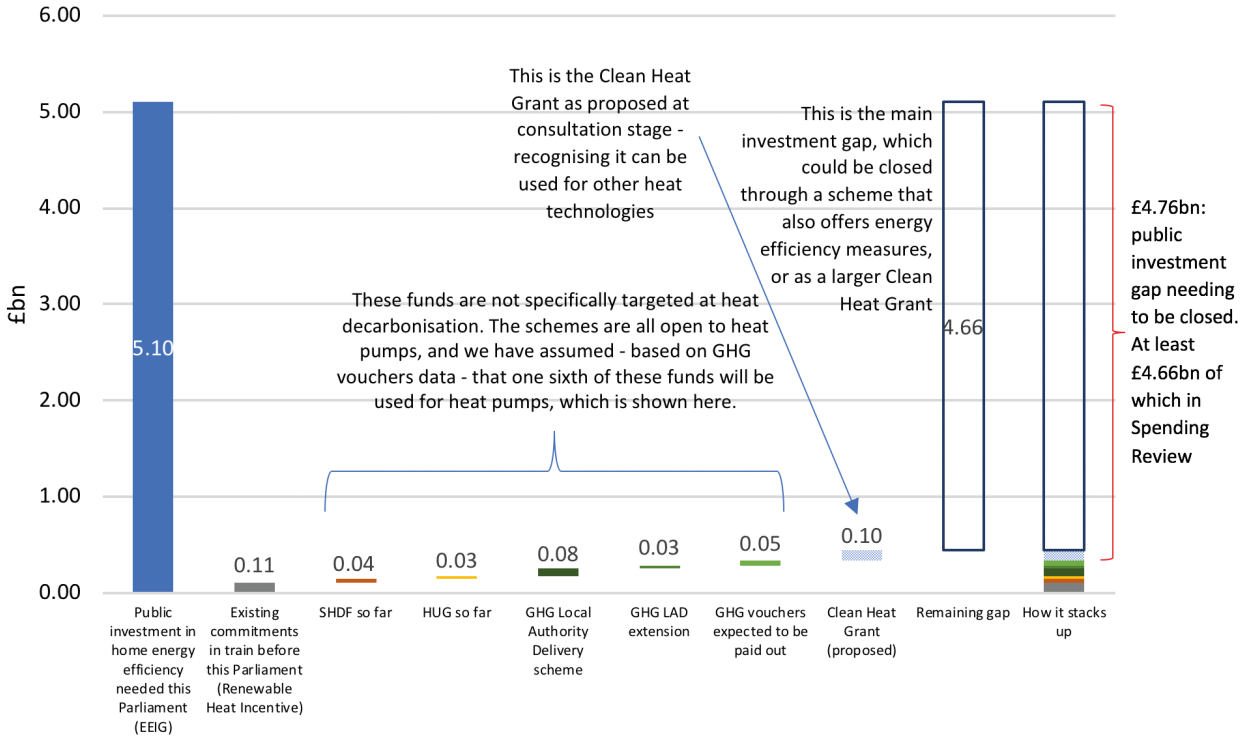


The chart above shows that there is a £7bn gap between current and planned public spending commitments and what is needed to get on track for climate targets this Parliament, made up of £3.35bn to support low income and fuel poor households, and £3.6bn to support the so-called 'able to pay' to take the necessary steps and spur additional private investments. Support for low income households can be drawn from the 2019 Conservative Manifesto commitments, with new pledges needed to cover support for remaining households.

2.3 Public investment gap: heat pumps in existing homes

RAP's analysis finds that to get on track for climate targets, a £7.3bn investment is needed for heat pumps in existing homes this Parliament, comprising £5.1bn of public and £2.2bn of private investment from 'able to pay' homeowners and landlords between 2020 and 2025. The chart below breaks down this investment gap.

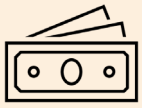
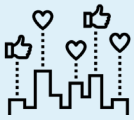
Figure 2: In the starting blocks? Public investment to support home heat pumps to 2025 and the remaining investment gap (rounded to nearest £0.01bn)



The chart shows that the Spending Review needs to deliver up to £4.76bn – or £4.66bn if the Clean Heat Grant as currently proposed as a £100 million pot is confirmed beforehand (while recognising that the Clean Heat Grant can be used for other technologies too).

3 Closing the public and private investment gap

Unlocking the private investment necessary to decarbonise homes will rely on a comprehensive, cross-government and coherent programme, beyond public investment. The EEIG's vision for this is set out on the next page. All of its elements need to be progressed together, with an important role for cross-departmental coordination. The focus of this briefing is on the pivotal role of HM Treasury – specifically through the **Spending Review**, the **Budget**, and the role of the **UK Infrastructure Bank** (UKIB). These elements of the EEIG's vision are highlighted in yellow, with specific recommendations for these fiscal events and the UKIB in **bold**.

 *Governance*	• Reflect updated climate targets and carbon budgets • Establish governance, delivery arrangements and architecture that support a locally led approach • Institute a fabric and energy efficiency first principle • Support a flexible, smart and efficient system • Support skills and supply chains for heat pump deployment	• Minimum Energy Efficiency Standards: stretch ambition for private-rented sector, introduce equivalent for social housing, and introduce for owner-occupiers • Set a trajectory for the phase-out of fossil heating system sales • Set roadmap for a phased introduction of Future Homes Standard from 2023	 *Regulation*
 *Public capital*	• Confirm total investment requirement to meet 2030 targets • In the **Spending Review**, set out **£7bn of public capital for energy efficiency and £4.76bn for heat pumps to 2025** to support local delivery, grant schemes for low-income households and to pump prime the 'able to pay' market • Connect public capital with the green finance agenda	• Set out long-term funding for locally-led schemes available to all local areas based on need (fuel poverty levels, housing energy performance) • Build investable local propositions through UK Infrastructure Bank and Local Energy Hubs • Coordinate local delivery in close alignment with the updated Fuel Poverty Strategy • Connect adaptation, resilience and circular economy agendas into delivery	 *Local and fair delivery*
 *Able to pay incentives*	• Through the **Budget**, establish fiscal incentives such as **Green Stamp Duty, 0% VAT and a Landlords Low Carbon Allowance** for landlords who exceed regulatory requirements • **UK Infrastructure Bank supports retail banking partners to offer 0% interest loans** • Leverage incentives to pump-prime the market for green financial products and services	• Build on the Simple Energy Advice website, offering comprehensive and impartial advice on appropriate home improvements, funding, skilled installers and products • Ensure EPCs are fit for purpose through the EPC Action Plan • Boost innovation, supply chains and skills for example through the Lifetime Skills Guarantee • Drive digitalization through real energy performance and building renovation passports	 *Advice and standards*

3.1 Spending Review

As the analysis covered in Part 2 shows, there is a need for an additional £7bn public investment this Parliament for home energy efficiency, which Treasury can deliver through the Spending Review. Recent modelling by the RAP and E3G suggests on top of this, £5.1bn is needed to get on track to meet heat pump targets,[14] which will require a new £4.76bn investment at the Spending Review. To fulfil the remaining private finance needed, new structural incentives should be announced at the Budget. Capital spending commitments can also spur private investments – for example, the Green Homes Grant covered just two thirds of the costs of green home installations, with homeowners paying the remaining costs themselves. Together, these recommendations should constitute a well-designed, long-term package of incentives and grants to provide the catalyst needed to spur innovative new green finance products and business models. This would underpin the market for green mortgages, property-linked finance, demand aggregation financing and other solutions being driven forward by the Green Finance Institute's Coalition for the Energy Efficiency of Buildings.[15]

All schemes should be designed with high-quality delivery in mind, learning and applying lessons from the Green Homes Grant, and embedding performance measures to verify quality and build market and consumer trust.

Table 2: Total needed from Spending Review for homes decarbonisation

INVESTMENT LINE	AMOUNT 2022 TO 2025
1. All households – initiate a new long-term grant scheme available to all households, including those not in LAD areas and not eligible for manifesto programmes	£3.60bn
2. Manifesto confirmation: low-income households – allocate the remainder of the £2.5bn Home Upgrade Grant (HUG) to 2025	£2.35bn
3. Manifesto confirmation: low-income households – allocate the remaining programmed share to 2025 of the 10-year £3.8bn Social Housing Decarbonisation Fund (SHDF)	£1.00bn
Total energy efficiency	***£6.95bn***
4. All households – expanded grant scheme to support new heat pumps targets, such as through the Clean Heat Grant, with full costs covered for low income households	£4.76bn
Total heat pumps	***£4.76bn***
Total needed in Spending Review for homes decarbonisation	**£11.71bn**

[14] https://www.raponline.org/wp-content/uploads/2021/03/RAP-Heat-Pump-Policy-0324212.pdf
[15] https://www.greenfinanceinstitute.co.uk/ceeb/

3.1.1 Investment 1 – supporting all households up to 2025

A long-term commitment to a well-designed grant scheme, worth £3.6bn this Parliament, has a crucial role to play in a package of measures – helping grow the market in anticipation of a tapering off of support after 2025, and a ramping up of alternative approaches and financial products as the market becomes self-sustaining.

At 64% of the UK's households in 2020,[16] owner-occupiers comprise the largest housing tenure, and therefore the largest potential market (by volume) for financing home decarbonisation and climate resilience. While support has been pledged for fuel poor and low-income households, many homes will slip through the net under the current suite of measures. While millions of households are classed as "able to pay", the reality is that many are not in a position to afford deep home retrofits, nor incentivised to do so. The most recent English Housing Survey found that 33% of owner occupiers have no savings and highlighted that 58.4% of owner occupiers fall into the 'middle income' quintiles, with a further 15.5% in the lowest quintile and 26.1% in the highest quintile.[17] Owner occupiers with the lowest levels of savings and wealth - and least energy efficient homes - live disproportionately in the North of England and the Midlands. These are the regions in which owner occupiers most need grant funding. Grants would help level-up these regions and the 190,000 jobs created nationally through investment would be concentrated in them, as well as the largest energy bill savings.

Grants are popular with the public and can help boost jobs and supply chains, while leveraging private investment. Polling shows that two-thirds of homeowners in England (62%) were interested in the Green Homes Grant,[18] and 110,000 applications were made in a short period of time – with 25,000 issued.[19] A grant scheme with a clear, longer-term timeline would give businesses the confidence to invest in jobs, skills and accreditation. A survey by the Insulation Assurance Authority found that businesses that participated in the Green Homes Grant voucher scheme on average spent £87,000 getting set up.[20] In designing a new scheme, the government should work with industry to avoid replicating the administrative barriers that made the application process needlessly complex and payments frequently delayed. EEIG has provided detailed analysis on the key lessons which need to be applied for the Green Homes Grant scheme in a separate paper.[21]

3.1.2 Investments 2 and 3 – supporting low-income households up to 2025

The Government has made welcome commitments to support low income and fuel poor homes through Manifesto commitments:

[16] https://www.statista.com/statistics/286503/england-propportion-of-owner-occupied-households/
[17] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/898397/2018-19_EHS_Housing_costs_and_affordability.pdf
[18] ECIU (2020) Green Homes Grant demand set to outstrip supply
[19] They work for you (2021) Domestic Energy Efficiency: Retrofitting - Question
[20] 9 https://www.theiaa.co.uk/news/post/is-the-future-of-the-green-homes-grant-voucher-scheme-at-risk/
[21] For EEIG's full analysis of the Green Homes Grant, including what happened, what lessons need to be learnt, and what comes next; please see the following position paper: https://www.theeeig.co.uk/media/1107/eeig_learning_lessons_green_homes_grant.pdf

- The Homes Upgrade Grant (HUG) – A £2.5bn scheme running to 2025, of which £150m has been allocated; and
- The Social Housing Decarbonisation Fund (SHDF) – A £3.8bn scheme running to 2030 of which £222 million has been allocated, with an assumed remainder of £1bn by 2025.

It is crucial that the Government fulfils these pledges at the Spending Review – with £3.6bn outstanding for SHDF and £2.35bn outstanding for HUG to date. This will provide industry the confidence to plan to skills and capacity; while building owners need the clarity to plan to improve their buildings.

We note the recent Sustainable Warmth competition has brought together two fuel poverty schemes (Local Authority Delivery Phase 3 and Home Upgrade Grant Phase 1) into a single funding opportunity for Local Authorities.[22] The Local Authority Delivery (LAD) scheme has been successful, fully allocating £500m so far and is proving positive for climate change objectives and jobs. For example, E.ON has recently announced 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 around 220,000 tonnes.[23]

It remains crucial that the Government continues to support fuel poor and low-income households through delivering on Manifesto commitments, including those in social housing. The economic toll of the pandemic has left many households less financially secure, and the updated definition of fuel poverty has provided a more realistic insight into the number of people struggling to pay to keep their homes at healthy temperatures – with more than one million households newly measured as fuel poor.[24] Investing in Local Authorities and social housing can also act as a launch pad to achieve scale of skills and supply chains which can subsequently be rolled out to serve other tenures, including owner-occupied.

3.1.3 Investment 4 – supporting heat pump delivery to 2025

The Government has committed to a target of 600,000 heat pump installations per year by 2028, which is a welcome signal but falls below the CCC's estimate that 900,000 installations will be needed per year in this timeline. This represents a major scaling from current rates of deployment To be in position to meet this target, it is important new funding commitments are made to support households with the upfront costs. This should include expanding and extending the proposed £100 million Clean Heat Grant, which will run from April 2022 until March 2024. Analysis suggests the scale and scope of this grant is insufficient to get the UK on track for its heat pump deployment target, or to meet climate targets corresponding with the Climate Change Committee's analysis.[25] It is essential to embed a 'fabric first' principle into these delivery schemes to ensure homes are suitably insulated prior to the installation of a heat pump. Reducing the initial capital expenditure required to install a heat pump system is vital.

Analysis by RAP and E3G finds that an additional £5.1bn is needed this Parliament to support delivery, with the full costs covered for low-income households, and up to £6,000 to everyone else.[26] This should taper to £9,000 and £4,000 respectively by 2025 as costs come down. This will help pump-prime the market, as part of a suite of measures to lower technology costs in a similar way as has been seen with electric vehicles. Additional means to increase heat-pump take up could include setting market-based obligations on manufacturers to invest in clean technologies.

[22] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/993972/sustainable-warmth-competition-guidance.pdf
[23] 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/
[24] https://www.gov.uk/government/publications/sustainable-warmth-protecting-vulnerable-households-in-england
[25] https://www.raponline.org/wp-content/uploads/2021/03/RAP-Heat-Pump-Policy-0324212.pdf
[26] https://www.raponline.org/wp-content/uploads/2021/03/RAP-Heat-Pump-Policy-0324212.pdf

Lastly, although not the focus of this paper, we would highlight that all funding schemes should be designed with clear performance criteria and quality assurance in mind, learning and applying lessons from the Green Homes Grant, and embedding requirements to verify quality and build consumer trust.

3.2 Budget

Alongside allocating grant funding up to 2025, setting up long-term fiscal incentives to unlock additional private finance will be critical to attracting the necessary levels of investment to meet the UK's 2030 energy performance and carbon targets.

The EEIG is therefore calling on HM Treasury to set out a complementary suite of measures in the Budget to further support, incentivise and enable so-called 'able to pay' households to make the necessary energy performance improvements, backed up by clear regulatory requirements established by BEIS.

A well-designed, package of incentives and enablers will provide the catalyst needed to spur innovative new green finance products and business models. This would underpin the market for green mortgages, property-linked finance, demand aggregation financing and other solutions being driven forward by the Green Finance Institute's Coalition for the Energy Efficiency of Buildings.[27]

The package should include the introduction of a Green Stamp Duty, 0% VAT on green home retrofits and a Landlord's Low Carbon Allowance to stimulate demand for green finance where needed – as recommended by the Green Finance Institute and others.

- **Green Stamp Duty** - By introducing incentives at key 'trigger points' where a homeowner is likeliest to take action to retrofit their home – such as when buying, selling, or undertaking another renovation project (i.e. to upgrade a kitchen) – the Government can maximise potential positive outcomes, driving additionality. A new report demonstrates how a modest adjustment to Stamp Duty Land Tax could catalyse and drive the market to deliver both energy efficiency improvements and low carbon heat and power, whilst also being revenue neutral to HM Treasury.[28]

- **Zero Rating VAT** - A 0% VAT on green home retrofit products and services could also trigger action and investment, with an independent research report conducted on behalf of the Federation of Master Builders and RICS finding that the benefits of cutting VAT on home im provement works to 5% for the period 2021 – 2025 would result in a £51bn stimulus at a £2.7bn cost to Government, supporting nearly 350,000 jobs.[29] Supporting a major ramp up of additional activity, Treasury could gain additional revenue from this measure.

- **Landlords Low Carbon Allowance** - A Landlords' Low Carbon Allowance for energy efficiency and clean heat upgrades could also drive action when a property is void or during a change in tenancy, while supporting landlords to comply with tightening minimum energy efficiency standards. The Landlord's Energy Saving Allowance (LESA) was a unique allowance that was available between 2004 and 2015, given towards the cost of acquiring and installing certain energy-saving items. The introduction of tighter Minimum Energy Efficiency Standards for the private rented sector would be a timely moment to reintroduce this Allowance, supporting landlords seeking to meet or go beyond MEES to drive additional investment.

[27] https://www.greenfinanceinstitute.co.uk/ceeb/
[28] https://www.ukgbc.org/ukgbc-work/a-housing-market-catalyst-to-drive-carbon-emission-reductions/
[29] https://www.fmb.org.uk/resource/cut-the-vat.html

3.3 UK Infrastructure Bank

The newly announced UK Infrastructure Bank can play an important role in reducing investment risk for decarbonising homes, reducing the financing cost and drawing in capital markets and institutional investors to back new green financial products and services at scale, including 0% loans to households and SMEs via financial intermediaries such as retail banks and building societies. Examples around the world show how this can spur action and investment – for example, for every €1 invested by national infrastructure bank KfW to incentivise energy efficient renovation through interest rate and capital subsidies in 2016, building owners were motivated to borrow and spend €6[30] – while the federal government has nearly recouped its outlay through increased VAT revenue alone.

- → Offer concessional loans to households and SMEs via financial intermediaries (retail banks and building societies) – to include 0% interest loans – or blended concessional loans with those intermediaries, creating a culture of lending.
- → Provide technical assistance and lending to local authorities to aggregate building retrofit and heat decarbonisation projects to attract larger scale financing.
- → Provide loan guarantees for social housing retrofits to the highest standards.

Conclusion

A long-term green homes Better Buildings Investment Plan would boost productivity and drive economic gains at a national, local and household level. No other programme has as much potential to deliver on the UK's levelling up and net-zero agendas. The timing of the Spending Review and Budget before COP 26 gives the Treasury a crucial platform to demonstrate what a world-leading green investment package should look like, with a plan that puts households and local economies first, while spurring billions in private investment – building a sustainable retrofit market and reducing the costs of the transition for all.

About the Energy Efficiency Infrastructure Group

The Energy Efficiency Infrastructure Group is a growing and broad-based coalition of over 25 industry groups, NGOs, charities and businesses asking for rapid improvement in energy efficiency policy for UK homes and buildings. Massive improvements in energy efficiency are the litmus test for a credible pathway to net zero emissions and ending fuel poverty. The EEIG is calling for energy efficiency to be treated as a national infrastructure investment priority, with a commensurate target – achieving an Energy Performance Certificate (EPC) rating of C (on a scale from A (most efficient) to G) for all homes by 2030 – and clear governance arrangements, a long-term plan and a pump-priming capital budget to achieve it. While it represents the views of the EEIG as a whole, this briefing does not necessarily represent the views of its individual members.

For further information please contact EEIG advocacy co-ordinator, Juliet Phillips at juliet@theeeig.co.uk or EEIG Chair, Sarah Kostense-Winterton at sarah@theeeig.co.uk.

[30] Calculated from Institut Wohnen und Umwelt & Fraunhofer Institut (2018) Monitoring der KfWProgramme "Energieeffizient Sanieren" und „Energieeffizient Bauen" 2016; BFM (2016) Haushaltsgesetz 2016