Consumer Futures Unit

Warming Scotland up to Energy Efficiency: Putting Consumers First

citizens advice scotland

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Contents

Executive Summary

It is a time of significant change for energy policy in Scotland. In a context of increased devolution of powers from the UK level, the Scottish Government is developing an ambitious Climate Change Plan, together with a new Climate Change Bill, and will also soon be launching a new Energy Strategy and setting new objectives for tackling fuel poverty. A major plank of this change will be Scotland's Energy Efficiency Programme (SEEP).

SEEP will be introduced from 2018 and will replace aspects of previous UK and Scottish energy efficiency programmes. The Scottish Government has already designated energy efficiency as a National Infrastructure Priority, and SEEP provides the opportunity for a fresh approach to delivery.

When the Scottish Parliament recently considered the draft Climate Change Plan, MSPs raised specific concerns about the potential impact on residential consumers, and asked how householders would be engaged under SEEP in support of the required levels of carbon emissions reduction.

The consumer perspective is indeed sometimes not sufficiently apparent in debate on important areas of policy, including climate change and energy efficiency policy. This Insight Report, and our other detailed recent publications on which it is based, seek to go some way towards filling that gap. The Consumer Futures Unit (CFU) aims to put the consumer perspective, always founded on robust independent research and evidence, at the centre of policy-making in the regulated sectors of energy, water and postal services – and specifically at the heart of SEEP.

To achieve the levels of transformation in standards of energy efficiency across Scotland's housing stock, implied by Scotland's climate change targets and by the stated ambitions of the Energy Strategy[1] and SEEP, the biggest challenge will be improving standards in owner-occupied properties, which at 61%[2] of homes (1.49 million households) are the largest sector of Scottish housing. Whilst good progress has been made, and subsidised financial incentives have been available, owners are not taking up measures at anywhere near the rate which would be needed to meet the targets. Two-thirds of owner-occupied properties (around 1 million homes) are below the Energy Performance Certificate (EPC) rating of C - which is generally seen as a 'good' standard[3].

In social housing, the Scottish Government has introduced regulation to drive up energy efficiency standards, and is about to do the same for the private rented sector, but there are as yet no firm proposals to do so for homeowners. To inform decisions for this sector, the CFU commissioned in-depth research on the following question:

> *What elements of incentives and new regulation would be most likely to encourage homeowners in Scotland to invest in improving the energy efficiency of their homes?*

The main finding is that **a new incentive system based upon a level of prompt Council Tax rebate for those homeowners who install energy efficiency upgrades would be, by some margin, the most popular and motivating of the incentives we considered**. We therefore recommend that such a system, or one having similar features and attractions to homeowners, should be explored.

Less positively, our new research clearly confirmed the continuing, substantial challenge to be

1 i.e. in terms of the reduction in final energy and heat demand

2 Scottish Household Survey 2016, http://www.gov.scot/Publications/2017/09/9979

3 Scottish House Condition Survey 2015, Table 19, http://www.gov.scot/Publications/2016/12/1539/335997

overcome before consumers – and homeowners in particular – can be persuaded to accept regulation of their 'private domain' to achieve minimum standards of energy efficiency.

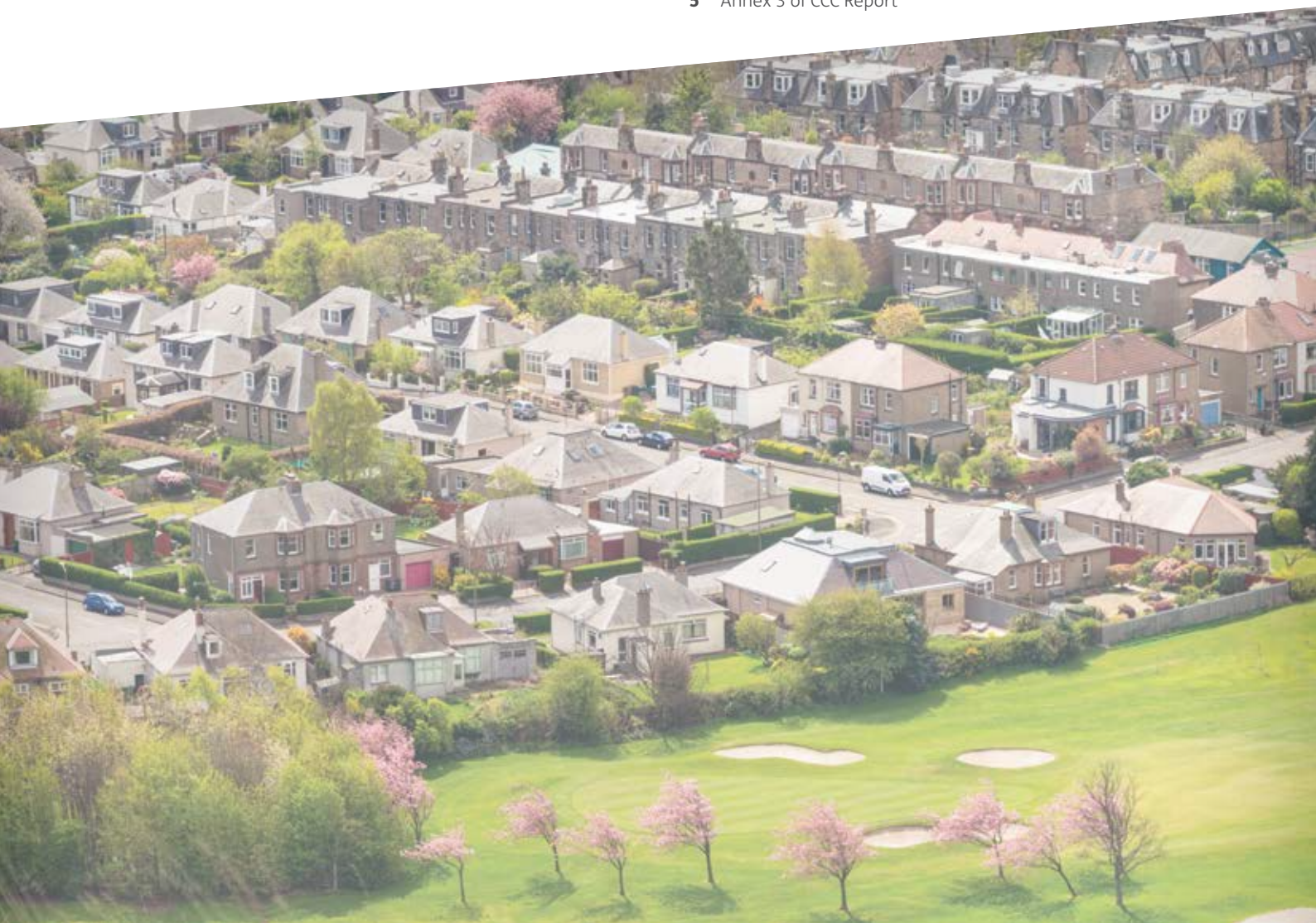
In the case of SEEP, a critical foundation for the programme is consumer buy-in, both for the objectives and the measures necessary to achieve them. Therefore, to promote energy efficiency measures and, if required, to increase the public's openness to regulation in this area, **we recommend that substantial efforts should be made to lead and transform public opinion on the real benefits of installing energy efficiency measures.** Any energy efficiency targets should take into account the time required to develop the public's appetite for the installation of energy efficiency measures.

This Insight Report summarises the research and the CFU's associated policy responses to the Scottish Government's consultations on SEEP, and on regulation in the private rented sector. These cover a number of other important aspects of SEEP, in addition to the major question of regulation and incentives. We hope that the report will be of interest to a broad readership, and useful to decision-makers in particular. We look forward to seeing how the Scottish Government's thinking evolves on regulation and incentives in the owner-occupied sector, and to continuing to contribute the consumer perspective to discussions in this area and on SEEP in general.

In its recent wide-ranging report on *Next Steps for UK Heat Policy*[4], the Committee on Climate Change commented on effective policy design to drive the transition. Analysing best practice in residential energy efficiency policy via a review of international experience[5], they stated: "*Successful policies tend to have a strong consumer focus in their design and implementation. Common success factors include being able to gain consumer trust, minimising the hassle and complexity for consumers, and targeting policies at times when consumers are considering renovation. Communications and marketing of schemes has an important role in gaining interest and is most effective when conveying a simple, targeted message in a streamlined way*". These principles are a sound basis for future policy design and we hope they will also be found to underlie the following report and its various recommendations on how SEEP should be designed and implemented.

4 *Next Steps for UK Heat Policy*, Committee on Climate Change (CCC), October 2016, https://www.theccc.org.uk/publication/next-steps-for-uk-heat-policy/

5 Annex 3 of CCC Report



1. Introduction

1.1 The **Consumer Futures Unit** (CFU), part of Citizens Advice Scotland, uses research and other evidence to put consumers at the heart of policy and regulation in the energy, post and water sectors in Scotland. We work with government, regulators and business to put consumers first, designing policy and practice around their needs and aspirations.

1.2 In 2016/17, we embarked on a new programme across all three of the sectors we cover, to apply innovative 'deliberative'[6] research methods to engage consumers effectively in these policy areas, and to influence policy-making with that enhanced consumer perspective. We consider that it is in the interests of consumers, business and government that policy is designed around the way consumers will interact with it, as this will substantially increase the prospects for success.

1.3 On energy policy specifically, the Scottish Government – as previously called for by the CFU – designated energy efficiency as a National Infrastructure Priority[7] in 2015, and as part of its over-arching new Energy Strategy[8] is introducing Scotland's Energy Efficiency Programme (SEEP) – a co-ordinated programme of work to be rolled out from 2018 to improve the energy efficiency of homes and buildings in the commercial, public and industrial sectors across Scotland, and to de-carbonise heat provision over the long term. Details of SEEP are still being developed and tested, including through a programme of consultation by the Scottish Government, who intend to publish the final version of the Energy Strategy before the end of 2017, and a Route Map for SEEP in 2018[9], and have also stated that, among other things, they will soon:

- confirm the introduction of new energy efficiency standards for the private rented sector to ensure that tenants are able to enjoy homes that are warmer and more affordable to heat;
- seek the views of owner-occupiers on improving the energy efficiency of their homes, including the role of standards and the use of financial and fiscal incentives[10].

1.4 The specific new deliberative research which we commissioned was designed to examine the second issue, in the owner-occupied sector, in more depth; and thus to inform the CFU's response to the Scottish Government's recent overall consultation about SEEP[11], which closed at the end of May 2017, and our response to the future consultation on this specific subject. We are publishing the full technical report of the research, carried out for us by Ipsos MORI and Involve, alongside this report, together with the CFU's response to the SEEP consultation. The CFU has also responded separately to another Scottish Government consultation on energy efficiency standards in the private rented sector[12], which closed in June 2017, and we are likewise now publishing that response. The remaining sections of this report set out some background context to these new publications, and summarise some of their main highlights and recommendations.

1.5 The CFU would like to thank Ipsos MORI and Involve for their highly professional work

6 'Deliberative' public engagement is a distinctive approach to involving people in decision-making. Where traditional consumer engagement tools, such as opinion polls or customer surveys, tend to measure 'top of the head' public views, deliberative public engagement relies on techniques such as citizens juries, citizens assemblies, structured dialogues or other methods to be able to offer policy and decision-makers richer data on public attitudes and values, and opportunities to explore more fully why people feel the way they do, and to create time to develop ideas, options and priorities with the public. For more information, see *Meta-analysis and scoping exercise into public participation in the regulated industries* – a new report by Involve & Ipsos MORI Scotland for the CFU, which is being published simultaneously with this report.

7 Scottish Government Heat Policy Statement, 11 June 2015

8 http://www.gov.scot/Publications/2017/01/3414

9 Letter to Scottish Parliament Economy, Jobs and Fair Work Committee, 31 August 2017, from Paul Wheelhouse MSP, Minister for Business, Innovation and Energy

10 *The Government's Programme for Scotland 2017-18*, 5 September 2017

11 https://consult.scotland.gov.uk/energy-and-climate-change-directorate/scotlands-energy-efficiency-programme/

12 http://www.gov.scot/Publications/2017/04/2510

and support on this project, under the very demanding objectives and timescales set for them. We are most grateful to the Scottish Government's SEEP policy team for their support throughout, going back to their first input in helping us to refine the scope of the consumer research. Thanks are also due to the Energy Saving Trust and the Existing Homes Alliance for similar involvement in setting the direction of the research, and for providing expert input at the consumer events.

1.6 Before publishing this report, we hosted an event for our stakeholders in July 2017, to share and discuss the findings with them. Stakeholders have generally welcomed the CFU's role in providing an independent consumer perspective to this important current area of policy. We should also like to thank them for the valuable and constructive comments provided at the event and subsequently, which we have taken into account in writing this overview of both our research and of our other recent SEEP-related publications.

CFU stakeholder event held at Citizens Advice Scotland, Edinburgh, July 2017

2. Encouraging energy efficiency investment – the balance between incentives and regulation: background context

2.1 The proposal to regulate all property owners in Scotland to require them to implement minimum standards of energy efficiency has been under consideration for several years, in the context of strategic objectives to raise the standards of energy efficiency in the nation's housing stock, to meet climate change targets, to help people to reduce rising fuel bills and to tackle fuel poverty.

2.2 The CFU has been involved in the significant amount of preparatory work and modelling which has been ongoing in the Scottish Government's Regulation of Energy Efficiency in the Private Sector (REEPS)[13] workstream since 2012/13. Ministers have had statutory power to make regulations covering this area since the passage of the Climate Change (Scotland) Act 2009[14].

2.3 The Scottish Government has already successfully regulated for minimum standards in one sector of the domestic housing market. The Energy Efficiency Standard for Social Housing (EESSH) came into force at the end of March 2014, and is supported by the CFU – to improve living conditions for those living in social housing, and to help to reduce levels of fuel poverty. EESHH was the second version of regulation – there was previously the Scottish Quality Housing Standard, which was measures-based: houses had to have a modern, efficient heating system and, where possible, loft and cavity insulation, and draught-proofing.

Current status and distribution of EPC standards in Scottish housing

2.4 Energy Performance Certificates (EPCs), giving ratings to properties from A (the most efficient) to G (least efficient) are widely used to measure the energy efficiency performance of the UK's housing stock. There have been consistent improvements (i.e. reductions in the numbers of homes in EPC bands E F, and G). Using the UK Government's recommended Standard Assessment Procedure (SAP) 2009, numbers of such homes in Scotland fell to around 360,000 in 2015, down from 630,000 in 2010. Trends are shown in Figure 1. This translates as an improvement rate of around 55,000 houses each year, although in practice improvement rates were slightly lower in the last couple of years at 40,000 or fewer. The reasons for the fall are uncertain: it may be that lower-cost insulation measures are no longer as freely available, or that the easier properties to upgrade have largely been addressed, leaving a greater proportion of properties which require more complex measures.

2.5 However, the change to SAP 2012 methodology, in the most recent survey, pushed the numbers in bands E, F and G in 2015 back up to 480,000. Therefore, if the current improvement rate were continued, it might take a further 10-15 years or so to upgrade more or less all the houses in the lowest-performing bands to a D rating. The further step to C is significantly higher: 1.54 million homes (64% of all homes) are rated below C – including two-thirds of owner-occupied and privately rented homes (1.02 million and 0.23 million respectively), and half of social housing properties (0.3 million)[15].

13 http://www.gov.scot/Topics/Built-Environment/Housing/sustainable/Energy-efficiency-private-sector-homes/REEPS-Working-Group and https://beta.gov.scot/groups/reeps-working-group/

14 s.64, *Living accommodation: assessment of energy performance and emissions*, states that Ministers "*must*, *by regulations*" [*emphasis added*] provide for energy performance assessments, and also "*require owners… to improve the energy performance of such accommodation*"

15 Scottish House Condition Survey, Tables 16, 18 and 19, http://www.gov.scot/Publications/2016/12/1539/335997

Figure 1 – Distribution of the Scottish Housing Stock by EPC Band, SAP 2009, 2011-2015

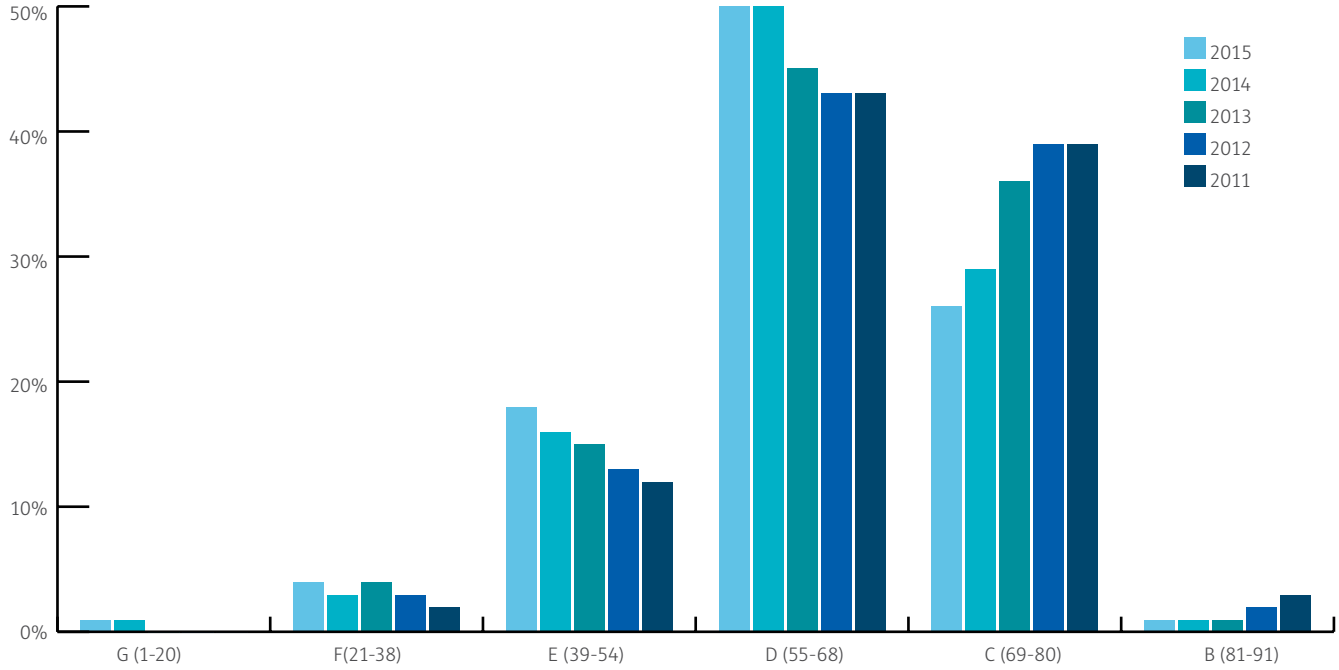
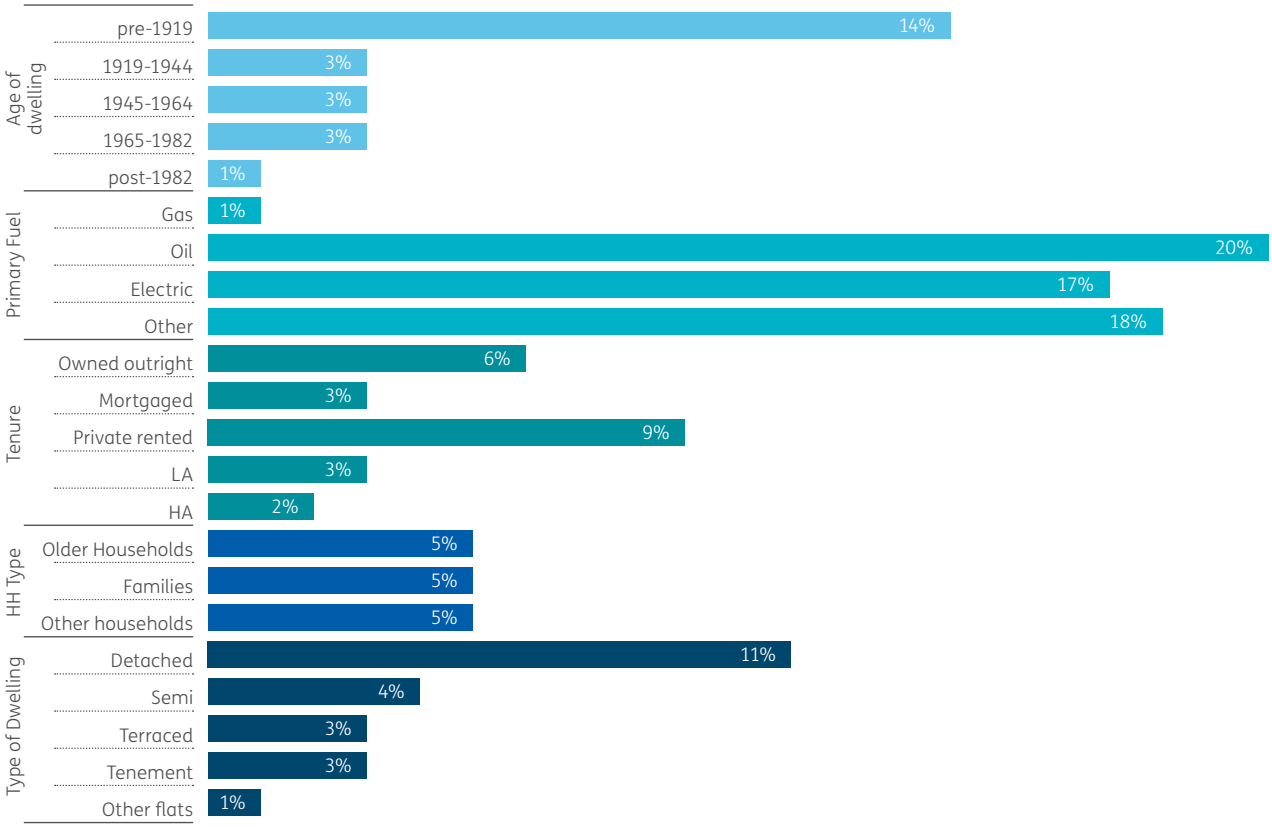


Figure 2 – Proportion of Homes that are F or G rated for Energy Efficiency by Dwelling Age, Primary Heating Fuel, Tenure and Household and Dwelling Type in 2015, SAP 2012



2.6 Household characteristics are also usefully summarised by the Scottish House Condition Survey. The percentages in Figure 2 represent the proportion of all homes having the description on the left-hand side which fall into EPC bands F and G, as compared with those which fall into higher energy ratings. So, for example, the first bar shows that in 2015, 14% of pre-1919 homes were rated F or G (and therefore 86% of such older homes had a higher rating).

2.7 This chart shows that, in summary, poorer energy efficiency tends to be concentrated in older, detached, off-gas homes – more likely rural, or electrically heated urban, homes – and in the privately rented and owner-occupied sectors.

2.8 The REEPS Working Group explored the technical measures needed to deliver improvements in considerable detail. Basic measures were identified as at least part of the solution in a significant minority of cases, with loft insulation being the single most identified measure, suitable for some 40% of homes. Draught-proofing, cavity wall insulation and upgraded heating systems were also common. Only a few needed much more expensive measures.

Current approach to minimum standards regulation

2.9 The Energy Efficiency Standard for Social Housing (EESHH) sets EPC band D as the minimum for all house types, with higher minima in some cases. The recent consultation for the private rented sector[16] proposed that standards should apply at the point of rental, and be set initially to cover homes in bands F or G (30,000 of these estimated), then extending later to those in band E (a further 65,000). There will be some reduction in climate change emissions from the introduction of these standards, but arguably the main driver from a consumer perspective is to reduce fuel poverty, which affects 50% of households (across all sectors) among band E properties, and nearly 70% in F and G.

2.10 If regulation were to raise most properties in the private rented sector to band D, which might seem appropriate given the numbers of homes involved, then together with other ongoing routine upgrades that might leave perhaps around 350,000[17] homes below D standard in the other sectors, the vast majority of them owner-occupied which is clearly the area where the main challenge lies.

Our previous research

2.11 In 2015, we published ***Coming in from the cold: minimum standards of energy efficiency in private sector housing – the view from consumers and bureaux***[18]. Based upon independent research and on views from bureau clients across Scotland, it concluded and recommended that:

- consumer detriment in private sector housing made a 'compelling case' for introducing a minimum standard of energy efficiency, but this would need to include a trajectory for improving standards further in the future as ratings improved overall;
- binding regulations would need to be fully supported by a system of enforcement in which the public had confidence, and which was perceived to be both fair and reasonable – this should include appropriate protections for tenants in the private rented sector so that rents were not unreasonably increased by landlords obliged to improve their properties' energy efficiency rating;
- property owners would need adequate support and impartial advice, from trusted sources and 'in some instances' this might need to include financial assistance;
- the Scottish Government should therefore explore appropriate funding streams, including alternative and/or innovative sources of funding, to support compliance, and help meet the costs of property alterations, across the sector.

2.12 However, the report revealed scepticism, particularly among owner-occupiers, for the idea of regulation. Although the wider benefits of regulating were recognised[19] across the different sectors of housing (social, private

16 http://www.gov.scot/Publications/2017/04/2510

17 This approximate figure is estimated from the 480,000 E, F & G properties referred to in an earlier paragraph, less the 95,000 rental homes to be regulated under the previous paragraph, less a rough estimate for ongoing routine upgrades to owner-occupied stock

18 http://www.cas.org.uk/publications/coming-cold

19 See also ***Energy efficiency in private sector housing – regulation and the consumer interest***, Consumer Focus Scotland, February 2011

rental and owner-occupied), many considered it both unachievable and unrealistic. The main reasons included:

- a general mistrust of Energy Performance Certificates (EPCs);
- regulation being seen as too much government interference; and
- concern about regulations potentially distorting housing markets.

2.13 Regulation of rental properties had more support than in the owner-occupied sector. This was in order to protect tenants: private landlords were perceived as essentially businesses, who already needed to meet an array of other statutory standards before letting a property. However, there was some concern about potential impacts on rent levels[20], and about housing markets being distorted in areas of high demand.

2.14 A review, done for the purposes of that report, of cases arising from our network of Citizens Advice Bureaux lent some added weight to the rationale for regulation, particularly to protect tenants and, to some extent, more vulnerable consumers generally (including some private owners seeking help) from the effects/risks of:

- fuel poverty;
- poor housing conditions; and/or
- problems with health/wellbeing.

2.15 Overall, however, this initial research suggested it would be a challenge to convince homeowners in general that regulation would be a good thing, and more preference was given instead to empowering and supporting them to make energy-efficient choices through advice, information and incentives. Arguably this was, even then, already current practice in Scotland; and the study was not able to explore in greater depth how this would achieve the required step change in uptake of some of the more difficult home efficiency measures.

2.16 In ***Taking the temperature: a review of energy efficiency and fuel poverty schemes in Scotland***[21], a report for the CFU last year by CAG Consultants, the contractors stated that "*even with improved marketing and communications, it is hard to envisage how the necessary consumer demand can be driven in the absence of regulation*", and they therefore recommended that "*the Scottish Government's proposal for regulating minimum standards of energy performance in existing private homes needs to be taken forward*". However, the topic of regulation was not the main focus of their research, which also consisted primarily of a literature/desk-based review, and did not at that point involve any direct new research of consumer views.

20 "*It is...reasonable to expect landlords to fund the work from their own resources and recover costs, if necessary, through increased rents*", ***Conserve and save: a consultation on the Energy Efficiency Action Plan for Scotland***, Shelter, 2009, http://scotland.shelter.org.uk/professional_resources/policy_library/policy_library_folder/conserve_and_save_a_consultation_on_the_energy_efficiency_action_plan_for_scotland

21 http://www.cas.org.uk/publications/taking-temperature

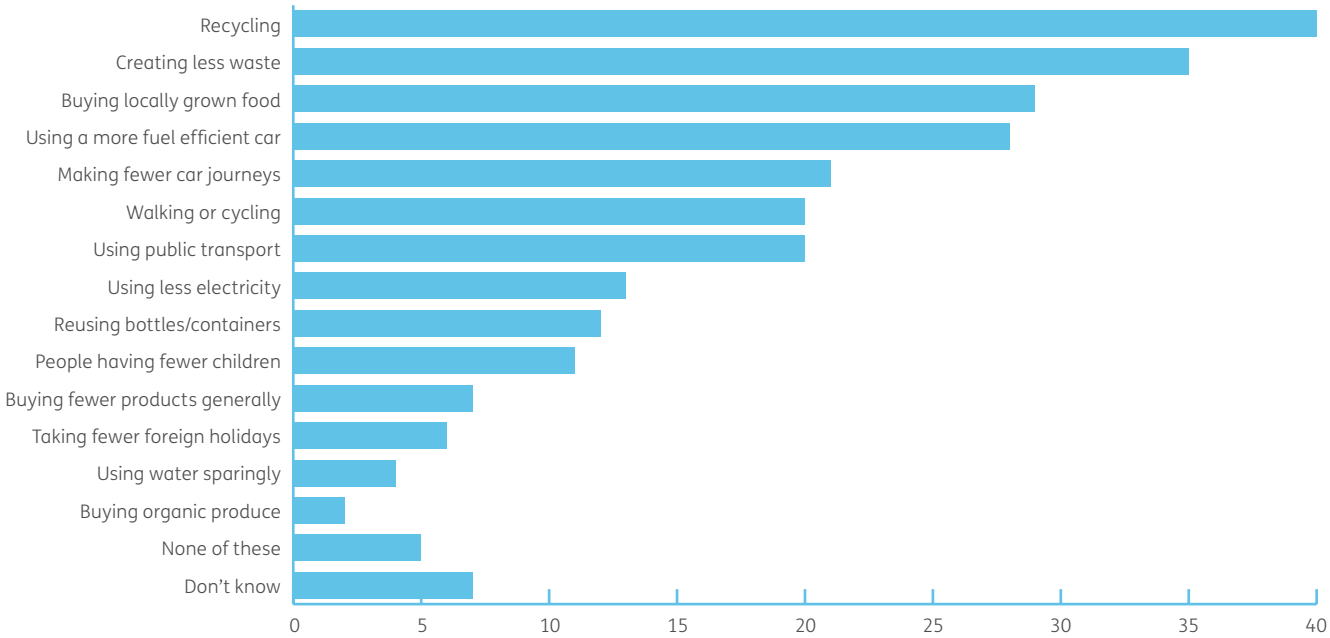
3. New CFU research on homeowners – the balance between incentives and regulation

3.1 To shape our input to the development of SEEP, we decided in Autumn 2016 to use our wider programme of deliberative research across the CFU to take a further and more detailed look at whether there may be an appropriate balance between regulation of owner-occupied properties for minimum standards of energy efficiency on the one hand, and offering financial incentives on the other. This decision was informed by a workshop held with the Scottish Government's SEEP policy team, and others, to refine which consumer research topic on SEEP would be likely to be of most interest and value to them in policy terms. An invitation to tender was accordingly then issued to potential contractors, in December 2016.

3.2 By way of providing context for homeowners' attitudes to energy efficiency, a CFU survey in early 2017 examined public perceptions of what actions are needed on an individual level to reduce climate change. People's top responses focussed around reducing waste, recycling and buying locally grown food (Figure 3). This may be due to the success of policies such as kerbside recycling, which for many citizens is something that they can relate to personally, is socially accepted and expected and, importantly, does not have associated costs to individuals.

3.3 The fact that citizens do not perceive reducing electricity use in the home as one of the key ways they can individually help to reduce climate change may also be a result of their perceptions of what is causing climate change. Our survey results show that citizens think that the use of gas and electricity in the home is only marginally more responsible for climate change than smoking.

Figure 3 - Question: Which of the following actions do you think would do the most to help reduce climate change on an individual level?



Respondents were asked to pick up to three options.

3.4 In January 2017, the CFU commissioned Ipsos MORI and Involve as joint contractors to undertake this substantial and innovative new project, using for the first time deliberative research techniques. Homeowners were asked the following research question:

"What elements of incentives and new regulation would be most likely to encourage homeowners in Scotland to invest in improving the energy efficiency of their homes?"

3.5 The technical research report[22] is now being published alongside this CFU Insight Report and includes its own executive summary and conclusions by the research contractors.

3.6 The new research clearly demonstrates the continuing, substantial political challenge to be overcome before consumers – homeowners in particular – can be persuaded to accept regulation of their 'private domain' to minimum standards of energy efficiency. As the report states[23], people appear by and large to be 'not there yet' in lining up with the positions agreed by their governments on climate change and future energy usage, and on the targets, investment costs and behaviour change which those imply. Currently, financial considerations are clearly of greater salience to people than environmental ones[24]. To achieve a successful transformation in the energy efficiency of privately-owned housing, the research suggests the following recommendations.

CFU recommendation:

Any new regulation of homeowners to implement minimum standards of energy efficiency would need to be preceded, or at least accompanied by, substantial efforts to lead and transform public opinion – whether through education, communications and marketing, or awareness-raising.

It may be that such a campaign should be conducted in phases[25], so as to increase acceptance gradually, with evaluation at each stage to measure and understand success. The consumer, and consumer acceptance, need to be at its heart – which entails ongoing in-depth research and tracking of consumer perspectives and opinion. Success may depend upon the ownership of an energy-efficient home becoming an 'aspirational' social norm, with consumer motivation being driven neither by purely financial factors, nor purely environmental ones.[26]

3.7 The scope of our new research was limited to presenting consumers with one scenario on possible trigger points for any new regulation of homeowners to implement minimum standards of energy efficiency. This was for the regulations to apply at the point of sale. This has tended to be viewed as the fairest and most straightforward trigger point if regulation of the owner-occupied sector is to be introduced, and likewise the point of rental, as far as the private rented sector is concerned. We have therefore not yet examined alternative trigger point options such as major refurbishment, or the commencement of an area-based SEEP delivery scheme, although

22 *Consumer participation in energy policy – research project,* Ipsos MORI & Involve, May 2017

23 Conclusions to s.2, p.35

24 Ditto

25 Stakeholders have suggested from their experience that it may also need to allow for different sub-groups of the population to be targeted in different ways; and for different local circumstances and supply chain capabilities; good and effective case studies, to which people can relate, may also help to convince them – likewise the importance of community champions whom people will trust and believe

26 Academic research suggests that households will make a decision to retrofit energy efficiency measures in the home on grounds of whether it fits in with their lives and their image of the home as an extension of their personality; and that more emphasis should be placed on the holistic reasons to retrofit – home improvement, comfort, etc. – with the up-front investment and returns forming only part of this: *Why do homeowners retrofit energy efficiently? Contrasting perspectives and implications for policy*, C Wilson, L Crane & G Chryssochoidis in Energy Research & Social Science, May 2015, http://dx.doi.org/10.1016/j.erss.2015.03.002 is a paper which brings together earlier evidence on this question

they do appear to raise more questions of practicality and regulatory even-handedness. It is assumed that any such options to be considered further by the Scottish Government would be accompanied by a detailed Business & Regulatory Impact Assessment, as was done[27] for the consultation on regulation of the private rented sector. The CFU would prefer to examine and consider such analysis of potential impacts before commenting further on alternative trigger point options.

3.8 If regulation were to be introduced, our research did note *"the perceived importance of regulation being introduced slowly and in targeted ways – i.e. starting from a focus on the lowest EPC levels and/or only being relevant at point of sale – rather than being imposed on all private housing"*[28].

3.9 The CFU welcomes the Scottish Government's interest in exploring new financial and fiscal incentives to support energy efficiency[29], believing that generous incentives would be an essential feature of any large-scale programme to counteract the currently limited levels of uptake of the less easy-to-do measures, and to drive greater and faster investment by property-owners. The targets in Scotland's draft new Climate Change Plan appear to imply that tens of thousands of insulation projects and other measures will need to be installed. We therefore also welcome, and look forward to, the commitment in the 2017/18 Programme for Scotland to consult soon in this area, with a specific focus on homeowners. We hope that, building on our own recent research and the successful application of deliberative methods, this further consultation can include direct engagement of consumers – with the aims of enhancing the in-depth understanding of the views and rationale of homeowners, and of placing the consumer perspective at the centre of policy-making.

3.10 In our SEEP consultation response, we have noted the use and prevalence in this policy debate of the phrase 'able to pay', to describe owner-occupiers who are not categorised as 'fuel poor' (in whatever way that definition, itself currently under review by the Scottish Government, is revised). People in this group may often nonetheless be hard-pressed and face significant challenges with household budgets, all the more so at times of wider fiscal constraint in the economy, and rising inflation. It is appropriate to ask whether there may be a less broad and more objective description than one implying that they are somehow easily 'able to pay' for the costs of substantial property alterations, when there are also many other monetary demands and possibly equally deserving alternative possibilities for any available household funds.

CFU recommendation:

The use of the phrase 'able to pay' households in this policy context should be re-considered. There needs to be a more refined economic analysis of household disposable incomes/ funds for different groups of society, and of alternative options for investment of such funds as are available.

3.11 The current strategic direction of government is towards public support being focused increasingly towards the fuel-poor and other more vulnerable consumers. Given, however, the clear existing experience that such households 'sit on their hands' as far as major energy efficiency investments are concerned, and will be likely to oppose regulation, then it needs to be considered whether, and if so how, the right universal incentives might make a difference in uptake, and in attitudes towards possible regulation.

3.12 Another point worth noting is that unless solutions are found to drive investment, homeowners who continue to put off doing anything will eventually reach pensionable age, and potential classification at that stage as vulnerable and/or fuel-poor, therefore potentially requiring, in the long run, a significantly larger subsidy from the budgets allocated to those who are so classified.

3.13 A recent comparative study on the effectiveness of incentives in other countries, by Climate XChange, is helpful. It found, for example, that *"overall, tax rebates appear to perform consistently well"*[30]. Among other

27 http://www.gov.scot/Publications/2017/04/5954

28 Conclusions to s.2, p.35

29 *The Government's Programme for Scotland 2017-18*, 5 September 2017

30 *Comparative Review of Housing Energy Efficiency Interventions*, Climate XChange, October 2015 http://www.climatexchange.org.uk/reducing-emissions/comparative-review-housing-energy-efficiency-interventions/

useful and sensible recommendations, it concluded that "*schemes that work well and at scale are usually supported by high levels of public subsidy (whether through general taxation or surcharge on energy bills*", whilst also noting that "*interventions need to address many of the non-financial barriers if they are going to be effective – an attractive financial proposition on its own is not enough to generate sufficient demand*".

3.14 Whether effective financial and fiscal incentives would completely, or even to any significant extent, overcome homeowner resistance or opposition to regulation cannot yet be inferred from our research – this looks likely to remain a substantial challenge, certainly without the transformational shift in public opinion referred to earlier. More research may be needed here. It is also noted that there is sometimes a marked difference between public acceptability of policies before they are introduced, and acceptability after they are brought in[31]; but again, it would be desirable to test this by consumer research in the specific circumstances of the significant costs of energy efficiency investments.

Key findings on financial incentives

3.15 Our own recent research looked at broadly two different types of incentive: those based upon loans on the one hand, and those delivered through the tax system on the other. Among the loans which householders were asked about, were some which included a cashback element (effectively similar to a partial grant) of up to 25% of the total cost of the measure. These scenarios were designed to be similar to those already on offer from the Home Energy Efficiency Programme for Scotland Loans scheme (and its recent new successor the Home Energy Loan Scheme).

3.16 Public deliberation at our field events revealed that despite the inducements, homeowners appear to have underlying reservations about all forms of medium- to long-term loan incentives, except possibly where they can be fully convinced that the achievable cost savings via reductions in energy consumption outweigh the loan repayments. As well as difficulties and negative publicity surrounding some previous loan-based schemes (for example the UK's Green Deal programme), there is an understandable degree of reluctance to shoulder additional debt, even when interest-free. Although some forms of interest-free and/or Pay-As-You-Save loans were found to be slightly more acceptable to participants in our research, options which further involve an additional mortgage-type charge on the property, or which introduce potential added complexity into the future sale process, were markedly less attractive to the participants we consulted.

3.17 The CFU is also ambivalent about loan incentives, likewise based upon a precautionary principle about encouraging people to take on debt. The CFU sits within Citizens Advice Scotland, where we have access to all the unparalleled caseload evidence from the network of Citizens Advice Bureaux across the country. A significant proportion of cases concern a range of people, from all walks of society, who for whatever reasons have run into problems with debt. At this stage, drawing on the consumer viewpoint in this new research, we would query whether a new national-scale infrastructure and investment scheme – possibly associated with a separate regulatory mechanism of compulsion – should rely on its main incentive to the public consisting of loan schemes and widespread additional consumer debt. However, we do also recognise that subsidised loan schemes have achieved some measure of take-up and success, can offer solutions and benefits to property owners, and do have their place as an incentive option in certain circumstances. Stakeholders have noted to us that consumer attitudes to loans might differ if future regulation of minimum standards were known more clearly – for example, certain regulation 10 years from now might change views about a 20-year loan. More research would be needed to establish this: it was beyond the scope of our recent consumer events.

3.18 In our full SEEP consultation response which we are now publishing as well[32], we note[33] that evaluation of previous incentive interventions would be useful to understand better which consumer groups, including different segments of the so-called 'able

31 Scottish Parliament Environment, Climate Change and Land Reform Committee, *Report on the Draft Climate Change Plan*, para. 312, p.68

32 *Scotland's Energy Efficiency Programme (SEEP): consultation response*, CFU, May 2017

33 Para. 95

to pay'[34] market, regard different levels of financial incentives as sufficient to participate in different schemes. Criteria also need to be agreed against which the success of such incentive schemes can be judged, likewise reflecting different segments of the market. It is accepted that there may be no 'one size fits all' solution.

CFU recommendation:

The existing primary emphasis on loans, whilst they are beneficial to many consumers in certain circumstances and we should like to see them continuing to be available as part of a suite of measures, should be reviewed.

More research and evaluation of past financial interventions/incentives, and success criteria, broken down according to different sectors of the market, should be made available to show what levels of grants, loans or other financial incentives are needed to engage different groups in practice.

3.19 As for possible incentives delivered through the tax system, again our new research looked at consumer views and preferences on two broad sub-options, both relating to property-based taxes: rewarding homeowners who make energy efficiency investments with either a discount on their future Council Tax payments on the one hand, or on the other a partial rebate of the Land & Buildings Transaction Tax (LBTT)[35] paid upon the purchase of the property.

3.20 These two taxes have emerged from previous research[36], and from policy papers by think tanks, lobbying organisations and others, as the two main preferred routes for incentivising homeowners. Another tax incentive route, sometimes suggested[37], would involve offering a further reduced rate of Value Added Tax (VAT) on home energy efficiency materials/improvements. However, this was considered to be outside the scope of our research, since the rates of VAT are not devolved to the Scottish Government.

3.21 Of the tax incentive scenarios presented to participants in our research, there was one which emerged – and by some margin – as being preferred by, and most likely to be encouraging to, homeowners. This was the idea of a one-off rebate in Council Tax in the year following the installation by the homeowner of energy-saving measures. The research scenario considered a level of discount of around the same order (for the sake of illustration and simplicity at the deliberative events a figure of £500 was used) as might conceivably be given as a cashback grant under the current Home Energy Loan Scheme – and it may be of interest to note that such a cashback grant attached to a loan appears to be significantly less attractive than the same amount of money offered by way of a Council Tax incentive, which had several features appearing to make it more appealing and motivating to people. These features may include its immediacy and lack of ongoing conditions, its tangibility, and the fact that it provides some relief from a tax which

34 Noting our earlier recommendation in this section that the use of that phrase should be re-considered and re-defined

35 Land & Buildings Transaction Tax was introduced by the Scottish Government in April 2015 under newly-devolved powers, replacing the previously UK-wide system of Stamp Duty Land Tax

36 e.g. *Changing climate, changing behaviour – delivering household energy saving through fiscal incentives*, Energy Saving Trust, 2005; *Fiscal incentives – encouraging retrofit*, Association for the Conservation of Energy, 2011, http://www.ukace.org/2011/10/fiscal-incentives-encouraging-retrofit/; *Existing Homes Alliance response to Scottish Government consultation on proposals for a Land and Buildings Transaction Tax,* 2012, http://existinghomesalliancescotland.co.uk/policy/land-and-building-transaction-tax-bill/; *Retrofit incentives*, UK Green Building Council, 2013, http://www.ukgbc.org/campaigns-and-policy/task-groups/retrofit-incentives; Manifesto for the General Election 2015, UK Liberal Democrats, http://www.libdems.org.uk/council_tax_cut_energy_efficient_homes; *Energy efficiency and local taxation,* Energy Saving Trust, 2015, http://existinghomesalliancescotland.co.uk/wp-content/uploads/2016/11/EST_submission_Commission-on-Local-Tax-Reform_11August15.pdf; *After the Green Deal: encouraging people and places to improve their homes*, Respublica and others, 2016, http://www.respublica.org.uk/our-work/publications/after-the-green-deal/; *Efficient energy policy*, Policy Exchange, 2016, https://policyexchange.org.uk/publication/efficient-energy-policy/

37 e.g. *Retrofit incentives*, cited above

households understand and which is itself associated with the physical structure – the home.

3.22 We also note here that a longer-term Council Tax rebate option, spread over 10 years in return for upgrading a home by two EPC bands, was not popular with our research participants, even when its total value (£1000) was twice the value of the one-off £500 Council Tax rebate.

3.23 There is already legislative provision for Council Tax reductions via local 'energy efficiency discount schemes', under s.65[38] of the Climate Change (Scotland) Act 2009, which added a new s.80A to the Local Government Finance Act 1992. However, previous experience of these schemes did not reflect the positive views expressed by consumers in our new research. They have had negligible take-up, but this is probably for a variety of possible reasons including the relatively low level of discount available (typically £50), but also lack of promotion/awareness of the schemes, and perhaps administrative complexity. The legislation also places control of, and responsibility for, the schemes at local authority, not national, level. In addition, it specifies that improvements to the property have to be made during the same financial year as the Council Tax discount is sought.

CFU recommendation:

With our research having found that a new incentive system based upon a level of prompt Council Tax rebate for those who install energy efficiency upgrades would be, by some margin, the most popular and motivating of the incentives we considered, we therefore recommend that such a system, or a system of incentives having similar features and attractions to homeowners, should be freshly explored, with a view to promoting it as the headline consumer incentive to accompany SEEP.

3.24 Participants at our research events were asked what refinements might be made to the Council Tax incentive option which could possibly improve it. The commonest theme to emerge was that the levels of rebate could be made proportional in some way to homeowners' ability to pay (perhaps assessed either on income, property value/band or some other criterion), and/or to the value of the energy efficiency investment required to bring the property up to standard. It would seem sensible to design the scheme to deter any risk that only cheaper upgrade measures would be implemented and would claim most of the tax rebates. There was also some feedback during our research to the effect that it would be considered unfair if, for example, the same level of tax rebate were given to the owner of a small flat requiring relatively few alterations, compared with, say, a low-income owner of a larger and/or more challenging property.

3.25 Any such refinements would need to be weighed against the degree of administrative complexity they would entail, but some might be relatively feasible – for example, some formula linking the amount of rebate to the banding of the property, and/or the costs of the measures to be implemented, and possibly taking account of other special individual circumstances, might be relatively straightforward to apply and might lend a perception of added fairness to the scheme.

3.26 This line of questioning was only considered briefly at our events and was essentially beyond the scope of our research. If, however, there is support to pursue our central recommendation above, then the CFU would be pleased to be involved in further discussions, and possibly additional research, to help to develop the further details of the scheme.

3.27 Clearly, another important question for the Scottish Government, Parliament and the public would be the cost of any such major incentive scheme. According to the Scottish House Condition Survey, there were 71,000 owner-occupied properties in the lowest EPC bands F and G in 2015. If, for the sake of estimation, 10,000 of these were to be upgraded per year and were to claim a tax incentive averaging £500, the cost would be approximately £5m plus administration. The CFU considers that, compared with other alternatives, and in the context of the Scottish Government's stated budgets for energy efficiency, this would be relatively affordable if it were a demonstrably effective 'game changer' in encouraging energy efficiency investment in the housing stock and a step towards Scotland's very challenging overall targets. Such a level of

38 http://www.legislation.gov.uk/asp/2009/12/section/65

public investment also seems consistent with energy efficiency having been designated as a National Infrastructure Priority. Indeed, an even higher level of subsidy/incentive could help motivate homeowners in the desired direction. It remains unclear what, in practice, the designation as a National Infrastructure Priority means in national investment terms to the majority of consumers, including homeowners – the design and implementation of SEEP should demonstrate to the public the advantages of this designation, and the difference it makes; and reflect it in the funded new programmes which it introduces.

3.28 We also believe that such a new incentive scheme could be introduced at a relatively early stage in the SEEP programme, although noting that it may require some amending and enabling legislation[39], plus a further financial and administrative lead-in time.

39 *The Government's Programme for Scotland 2017-18*, 5 September 2017, refers to the commitment to introduce a Warm Homes Bill and to a possible future 'SEEP' Bill, which might offer suitable legislative enabling vehicles

CFU recommendation:

The new financial incentive scheme should be introduced as soon as possible to drive increased take-up of energy efficiency measures, and in any event, at a relatively early stage in the SEEP programme.

Given the likely delay needed in developing and introducing any regulation of homeowners, at the point of sale, to implement minimum standards of energy efficiency, our incentive proposals would also allow time before any regulation of homeowners were to be finalised to:

- review the take-up and effectiveness of the incentive scheme; and
- review the workings and effectiveness of the currently-proposed new regulations for the private rented sector.

3.29 Overall, in the light of our own new research – until knowing what incentives might be introduced alongside regulation and until seeing any Business and Regulatory Impact Assessment (BRIA – i.e. cost/benefit analysis)[40] which might accompany any proposals to regulate homeowners to minimum standards of energy efficiency – the CFU does not yet from a consumer perspective adopt any position either for or against such regulation, nor on timescales, targets or milestones for such possible regulation.

40 Similar to the helpful and detailed partial BRIA which the Scottish Government published to accompany their recent consultation covering the private rented sector: http://www.gov.scot/Publications/2017/04/5954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4. Scotland's Energy Efficiency Programme (SEEP): other key points

4.1 In addition to our new research on incentives and regulation, we are also publishing our recent full SEEP consultation response[41] alongside this report. We take this opportunity to highlight some other key points from our response, which draw on the CFU's previous positions and experience in this field, together with our application of consumer principles and our expertise on the importance of consumer information/advice, protection and redress.

4.2 SEEP should be seen in the context of Scotland's revised Climate Change Plan (CCP) on the one hand, and new Energy Strategy on the other, as well as the Scottish Government's wider work on fuel poverty. The CFU has commented separately[42] on the draft CCP, and on the draft Energy Strategy[43]. We are closely involved with ongoing efforts to tackle fuel poverty.

4.3 The Scottish Parliament considered the draft CCP in detail. From the perspective of consumers facing multiple household pressures and wider economic uncertainties, we noted the concerns expressed by MSPs[44] on:

- the need for more detailed, credible and robust information on specific measures – how and when the extremely challenging proposed emissions reductions will in practice be achieved;
- the burden of the reduction plans which appears to be placed on the residential sector, as compared with transport and agriculture; and
- the need for greater emphasis on behaviour change, and on how consumers will be engaged in support of the required levels of emissions reduction.

4.4 The draft CCP raised significant questions about the impacts on consumers, including the costs and affordability of emissions reduction measures for households. Clearly, these will be dependent upon the unformed detail of SEEP.

CFU recommendation:

In the following paragraphs, various brief recommendations are highlighted in **bold** text.

4.5 We welcome the central emphasis on energy efficiency and demand reduction in the Energy Strategy. Indeed, as we said in our response to the Energy Strategy consultation, we believe that **this should be reflected by including an explicit reference to energy efficiency in the strategy's vision statement** – as it has likewise been reflected by designating energy efficiency as a National Infrastructure Priority. That is something which we also welcome, having previously called for it, and it implies that this area of activity will need to be funded by a significant increase in investment.

4.6 As far as SEEP is concerned, for a programme of this scale – including the targets and challenges to be achieved, and the degree of national transformation, behaviour change and cost which those entail – we suggest that **the programme will need new identity and appropriate, robust governance at a very high level, including regular reporting and scrutiny**. The importance of this is also increased given the suggested 15- to 20-year[45]

41 *Scotland's Energy Efficiency Programme (SEEP): consultation response*, CFU, May 2017

42 http://www.cas.org.uk/publications, February 2017 - The CFU provided evidence to the Scottish Parliament's (1) Environment, Climate Change & Land Reform Committee; (2) Economy, Jobs & Fair Work Committee; and (3) Rural Economy & Connectivity Committee

43 http://www.cas.org.uk/publications/consumer-futures-unit-response-scottish-government-draft-energy-strategy

44 http://www.parliament.scot/newsandmediacentre/103918.aspx - Scottish Parliament news release, 10 March 2017, summarising the reports of the four scrutiny committees, later endorsed in plenary debate, 16 March

45 https://consult.scotland.gov.uk/energy-and-climate-change-directorate/scotlands-energy-efficiency-programme/

lifetime of the programme, extending over a number of parliamentary terms. It would be for the Scottish Government and Parliament to determine how these should be framed, including perhaps in legislation. In addition, we believe that **the programme will need eye-catching features, and communications, to capture the attention, support and ideally enthusiasm of the public**. Indeed, as the previous section of this report and our new research highlight, there may be significant risks if SEEP does not carry the public with it.

4.7 Examples of what we mean by this include attractive branding and strong marketing for the programme. Also, however, given among other things clear evidence from our new research of public scepticism and confusion, or – worse – ignorance, mistrust or even outright opposition surrounding some areas of domestic energy efficiency, **there is a pressing need for the programme to be accompanied by simple, clear, convincing and compelling messages** around such themes as:

- Why are Scotland, and its people, doing this? Clear consumer and financial benefit, and pressing economic issues, had most salience for the people we spoke to during our research, more so than the environmental rationale, important though that is. This was particularly so against a backdrop of rising prices and bills.
- What are we collectively, and as individual households, aiming to achieve? For example, a clear message to the public could be that if a property has achieved an EPC rating of 'C' or better, that is a good outcome – there is little awareness presently of what 'good' is.
- At national level, it would be helpful to set out what future trends in EPC ratings SEEP is aiming to deliver. Again, there is a need to identify and communicate what 'SEEP success' looks like, expressing this in a way to which individual consumers can relate. We would also support one headline ambition being to eliminate energy inefficiency as a cause of fuel poverty – an objective expressed in this way has not yet been clearly articulated to the public, but is one which people could easily understand and back.
- How should householders typically get to this good outcome? Again, our research found inadequate awareness, and a level of mistrust, of the typical full range of cost-effective measures available.
- Where should consumers go – ideally a 'one-stop shop' with high public recognition and trust – to get (ideally free) clear, relatively straightforward, reliable and impartial advice, and support (including EPC assessment)?

4.8 **In calling for advice, assessment and support to be freely available to consumers via a 'one-stop shop' – building on Home Energy Scotland's existing offering – the optimal solution for homeowners, tenants (and individual landlords who need it) would be a single, streamlined 'customer journey'** – from initial enquiry at the outset, via advice and assessment, through support around installation, further assessment, and ultimately to redress. **Together with a clear framework for consumer standards and guarantees in this field, there should be access to a robust redress mechanism at the end of the process, in the unfortunate event that things go wrong and/or the consumer is not satisfied. Consumer confidence in the whole process, and in installation measures and companies, will be crucial to success given some experiences of previous schemes.**

4.9 In putting consumer benefit, and the avoidance of consumer detriment, at the heart of SEEP, **the long-established[46] 'seven consumer principles' should be essential reference points**. Broadly, these are:

- Access – can people get the goods and services they need or want?
- Choice – is there any?
- Safety – are the goods or services dangerous to health or welfare?
- Information – is it available, accurate and useful?
- Fairness – are some or all consumers unfairly discriminated against?
- Representation – do consumers have a say in how goods or services are provided?
- Redress – if things go wrong, is there a system for putting them right?

4.10 Specifically on the use of EPC assessments, the public and property owners need to be satisfied that the system of EPC assessment, and network of assessors, are independent, robust and not open to abuse – suggesting

46 Drawing on United Nations guidelines for consumer protection, the seven principles were adopted by our predecessor bodies as the agreed framework to underpin the way in which we approach issues

a high level of quality assurance and audit. Assessments need to be shown to produce the same, or at least very similar, results, regardless of the assessor involved. This level of assurance will be even more important if associated with financial incentives for energy efficiency improvements and/or regulation to minimum standards of energy efficiency. We recommend as follows:

CFU recommendation:

The CFU supports an 'enhanced EPC' approach to assessments delivered at no or low cost to the consumer under the auspices, or at least co-ordination, of the overall SEEP delivery programme, but in which there is confidence that the network, and reports, of assessors are independent, robust and quality-assured. It would be helpful for EPC assessments to reflect real (not just modelled) bills[46], so that consumers have a clearer idea of likely costs and benefits.

4.11 In our 2016 report, ***Taking the Temperature: A review of energy efficiency and fuel poverty schemes in Scotland***, we drew an important lesson on overall quality assurance and programme evaluation for SEEP, from the examination of many previous schemes operating in Scotland:

CFU recommendation:

Robust quality assurance processes are needed for all aspects of delivery. Formal evaluation should be built into the design and management of all schemes. The aim should be to achieve a cycle of continuous improvement, to build an understanding of the impact of different energy efficiency and fuel poverty interventions and to help build the business case for investment in energy efficiency.

47 Stakeholders have noted that, although desirable, it is difficult to offer people accurate forecasts of energy savings attached to specific measures: tangible figures are often affected by people's subsequent changes in behaviour, and other factors

5. Energy efficiency standards in private rented housing

5.1 As well as their recent consultation about the overall SEEP programme, the Scottish Government then undertook a separate consultation exercise[48] focusing specifically on the private rented sector, and containing their proposals to regulate for minimum standards of energy efficiency in that sector. The Scottish Government has since announced that it will soon "*confirm the introduction of new energy efficiency standards for the private rented sector to ensure that tenants are able to enjoy homes that are warmer and more affordable to heat*"[49].

5.2 Alongside this report, we are publishing for information our response to that consultation[50].

5.3 In summary, we broadly support the Scottish Government's proposals for minimum standards of energy efficiency in private rented housing. In this sector, the ultimate consumers of the 'service' – i.e. the letting of housing – are the tenants: the nature of the consumer relationship is significantly different from the position of those who own their own property. We support the aim of giving tenants, including in particular those who may be vulnerable and/or in fuel poverty, the highest practicable levels of standards, assurance and protection, to ensure that they can live in energy-efficient, warm, dry homes of a good standard.

5.4 The consultation notes recent progress on energy efficiency standards in the social housing sector in Scotland, as well as efforts to apply a minimum standard from April 2018 in the private rented sector in England and Wales. We agree that it is appropriate that tenants in the Scottish private rented sector should now be guaranteed the same, or higher, quality of housing and level of protection. As well as falling behind social housing, the private rented sector also contains a higher proportion of properties in the lowest-rated energy efficiency bands than the owner-occupied sector[51].

5.5 We support an important objective and benefit of the regulations being to reduce fuel poverty, and improve the well-being, of tenants. The consultation estimates[52] that the total number of rental dwellings requiring upgrading from an E, F or G rating to a D rating is 95,000; that over half – around 50,000 – of these households are in fuel poverty; and that 12,000 of these will be lifted out of fuel poverty as a result of the regulations, with the remainder having their fuel bills, and depth of fuel poverty, reduced.

5.6 The only caveat to our broad support would be any circumstances or evidence in which the costs to tenants (if rents were to be increased on the grounds of recovering the costs to the property owner of making the investments) were disproportionately to outweigh the benefits to the tenants, including savings in terms of fuel bills.

5.7 The detailed Partial Business and Regulatory Impact Assessment (BRIA)[53], which accompanied the consultation and which we welcome as it is based upon an extensive body of research-based evidence, examined the cost-benefit equation in some detail. It stated that where the expected fuel bill savings (to the tenants) over the lifetime of an upgrade are higher than its cost (to the landlord) – which the analysis later in the BRIA suggested will be the case for these regulations – "*it*

48 http://www.gov.scot/Publications/2017/04/2510

49 *The Government's Programme for Scotland 2017-18*, 5 September 2017

50 *Energy efficiency and condition standards in private rented housing: consultation response to the Scottish Government*, CFU, June 2017

51 Para. 19 of consultation – 28% of private rented dwellings fall into Energy Performance Certificate (EPC) bands E, F and G, compared with 22% in the owner-occupied sector and 10% in the social rented sector (drawn from Scottish House Condition Survey, 2015)

52 Para. 117

53 http://www.gov.scot/Publications/2017/04/5954

is possible for both landlord and tenant to be better off from installing the upgrade – the landlord from being able to receive an additional rent which more than covers the cost of the upgrade, and the tenant because the increase in their rent is less than the decrease in their fuel bills". However, the BRIA did not appear to underpin this by quantifying the impacts on rents, or other possible charges passed from landlords to tenants, in much additional detail. In a market which the BRIA describes as an imperfect one, it may be asked whether the theoretical statement quoted above will be borne out in practice, and if so to what extent, or whether tenants may be exposed to risks of unforeseen and/or earlier additional costs.

CFU recommendation:

We recommend that, in finalising the BRIA and in taking forward the proposals for the private rented sector, the possible upward effect on rents be carefully considered and monitored.

5.8 The consultation proposes that the minimum standard should be an EPC band E, then raised to D over time. It sets out a reasoned case for the gradual approach and milestones proposed. The introduction of regulated minimum standards in the rented sector is a significant step and major undertaking for the businesses and tenants affected, and for the supply chain; and policy-makers and local authorities will need to carry these sectors with them on the journey towards higher standards and the challenging future targets set out under the Climate Change Plan. Our separate new research on the owner-occupied sector (see earlier sections of this report) shows the likely difficulties and scepticism about regulation which continue to be prevalent among property owners towards regulation, and which will need careful handling, as well as more compelling communications and marketing helping to justify the case for regulation.

5.9 On the other hand, from a consumer viewpoint, the CFU supports better standards for tenants, at the earliest possible date, and faster and more effective achievement of targets on fuel poverty. The position of those calling for a more ambitious EPC rating of D to be set as the standard in the first instance, possibly with a longer lead-in time, is therefore also persuasive.

5.10 At SEEP consultation events, representatives of property owners tended to indicate that they would prefer to know the ultimate destination and trajectory of regulation, more than a gradual approach. This enables them to plan ahead at an earlier date for the levels of improvement and investment which are required. It may also be that if significant work to a property is required, owners would prefer to do that in one step, not twice. Although the consultation proposals do also set out the later trajectory from E to D, there may be a case that it would be clearer to set D as the standard from the outset, and then eventually C, but possibly with a longer timescale. We note that C is seen as the longer-term destination and if so, then this ought to be made clear from the outset. As we said in response to the general SEEP consultation, there is an overall need to communicate to the public what 'good' is – and this is accepted as being C, beyond both E and D, as an aspiration and possible future destination. It seems likely that this would encourage some landlords and other property owners to make the full upgrade to C (or even beyond) in one step if they wish, and if this would better suit their investment plans.

5.11 An initial minimum standard of E would have a relatively small impact (estimated[54] to be 30,000 homes), yet would still require all the surrounding regulatory and enforcement mechanisms to be established. There may be an argument that it would be more cost-effective, with greater economies of scale, for such mechanisms to be set up to cover the larger number of homes impacted by a D standard (stated in the consultation to be 95,000) from the start.

5.12 Ultimately, only the Scottish Government will have the fullest picture of evidence from around the country, and from different consultees, about the appropriate approach to take; but the CFU would certainly support the best and fastest outcomes for consumers – in this case the tenants – subject to considerations of cost-benefit and practicability.

5.13 The consultation notes[55] that average costs (and benefits) of improvements beyond D are not yet available. There is therefore insufficient evidence for us to take a position at this stage

54 Para. 47 of consultation

55 Para. 129

on targets and milestones beyond D. In the meantime, in the absence of such evidence, we also understand the need (as mentioned in the consultation[56]) to bear in mind the uncertainty of potential future measures to de-carbonise the heat supply, and the effect these may have on decisions by property owners about energy efficiency investments. The Scottish Government notes its wish to avoid, wherever possible, a situation where property owners upgrade their heat supply to comply with an energy efficiency standard, only to find out that this needs to be replaced by an alternative heating system only a few years later to meet the climate change targets on de-carbonisation of heat.

CFU recommendation:

It would be desirable for the further research on costs and benefits of going beyond a D standard to be undertaken, to inform ongoing policy development; and for further detail to be developed on potential future measures to de-carbonise the heat supply, to enable property owners to have a fuller and more rounded picture of all factors affecting future investment requirements in their properties.

5.14 Finally, we apply the same general consumer principles to the private rented sector as for the other areas of SEEP highlighted earlier:

CFU recommendation:

To provide an additional safeguard for the interests of tenants, there should a robust framework of consumer advice, support, protection and redress for tenants. Landlords will also need such a framework. General consumer principles should be applied to the design of this framework and to any new scheme of regulation and enforcement which is introduced. Specifically, there should be a clear, independent route for tenants to raise comments or complaints about their landlords, and to seek redress against any adverse impacts they may suffer as a result of energy efficiency measures taken by their landlords.

56 Para. 131

6. Recommendations

6.1 The following summarises the main recommendations included in the earlier sections of this report:

1. Any new regulation of homeowners to implement minimum standards of energy efficiency would need to be preceded, or at least accompanied by, substantial efforts to lead and transform public opinion – whether through education, communications and marketing, or awareness-raising.

   It may be that such a campaign should be conducted in phases, so as to increase acceptance gradually, with evaluation at each stage to measure and understand success. The consumer, and consumer acceptance of energy efficiency measures, need to be at its heart – which entails ongoing in-depth research and tracking of consumer perspectives and opinion. Success may depend upon the ownership of an energy-efficient home becoming an 'aspirational' social norm, with consumer motivation being driven neither by purely financial factors, nor purely environmental ones.

2. The use of the phrase 'able to pay' households in this policy context should be re-considered. There needs to be a more refined economic analysis of household disposable incomes/funds for different groups of society, and of alternative options for investment of such funds as are available.

3. The existing primary emphasis on loans, whilst they are beneficial to many consumers in certain circumstances and we should like to see them continuing to be available as part of a suite of measures, should be reviewed.

   More research and evaluation of past financial interventions/incentives, and success criteria, broken down according to different sectors of the market, should be made available to show what levels of grants, loans or other financial incentives are needed to engage different groups in practice.

4. With our research having found that a new incentive system based upon a level of prompt Council Tax rebate for those who install energy efficiency upgrades would be, by some margin, the most popular and motivating of the incentives we considered, we therefore recommend that such a system, or a system of incentives having similar features and attractions to homeowners, should be explored, with a view to promoting it as the headline consumer incentive to accompany SEEP.

   The new financial incentive scheme should be introduced as soon as possible to drive increased take-up of energy efficiency measures, and in any event, at a relatively early stage in the SEEP programme.

   Given the likely delay needed in developing and introducing any regulation of homeowners, at the point of sale, to implement minimum standards of energy efficiency, our incentive proposals would also allow time before any regulation of consumers were to be finalised to:

   > review the take-up and effectiveness of the incentive scheme; and
   > review the workings and effectiveness of the currently-proposed new regulations for the private rented sector.

5. An explicit reference to energy efficiency should be included in the vision statement for the Scottish Government's new Energy Strategy.

6. SEEP will need new identity and appropriate, robust governance at a very high level, including regular reporting and scrutiny.

7. SEEP will need eye-catching features, and communications, to capture the attention, support and ideally enthusiasm of the public.

8. There is a pressing need for SEEP to be accompanied by simple, clear, convincing and compelling messages:

   > a clear message to the public could be that if a property has achieved an EPC rating of 'C' or better, that is a good outcome – there is little awareness presently of what 'good' is
   > at national level, it would be helpful to set out what future trends in EPC ratings SEEP is aiming to deliver
   > we would also support one headline ambition being to eliminate energy inefficiency as a cause of fuel poverty.

9. In calling for advice, assessment and support to be freely available to consumers via a 'one-stop shop' – building on Home Energy Scotland's existing offering – the optimal solution for homeowners, tenants (and individual landlords who need it) would be a single, streamlined 'customer journey'.

10. Together with a clear framework for consumer standards and guarantees in this field, there should be access to a robust redress mechanism at the end of the process, in the unfortunate event that things go wrong and/or the consumer is not satisfied. Consumer confidence in the whole process, and in installation measures and companies, will be crucial to success given some experiences of previous schemes.

11. The long-established 'seven consumer principles' should be essential reference points in the design and delivery of SEEP.

12. The CFU supports an 'enhanced EPC' approach to assessments delivered at no or low cost to the consumer under the auspices, or at least co-ordination, of the overall SEEP delivery programme, but in which there is confidence that the network, and reports, of assessors are independent, robust and quality-assured. It would be helpful for EPC assessments to reflect real (not just modelled) bills, so that consumers have a clearer idea of likely costs and benefits.

13. Robust quality assurance processes are needed for all aspects of delivery. Formal evaluation should be built into the design and management of all schemes. The aim should be to achieve a cycle of continuous improvement, to build an understanding of the impact of different energy efficiency and fuel poverty interventions and to help build the business case for investment in energy efficiency.

14. We recommend that, in finalising the Business & Regulatory Impact Assessment (BRIA) and in taking forward the proposals for the private rented sector, the possible upward effect on rents be carefully considered and monitored.

15. It would be desirable for the further research on costs and benefits of going beyond an EPC standard of 'D' to be undertaken, to inform ongoing policy development; and for further detail to be developed on potential future measures to de-carbonise the heat supply, to enable property owners to have a fuller and more rounded picture of all factors affecting future investment requirements in their properties.

16. To provide an additional safeguard for the interests of tenants, there should a robust framework of consumer advice, support, protection and redress for tenants. Landlords will also need such a framework. General consumer principles should be applied to the design of this framework and to any new scheme of regulation and enforcement which is introduced. Specifically, there should be a clear, independent route for tenants to raise comments or complaints about their landlords, and to seek redress against any adverse impacts they may suffer as a result of energy efficiency measures taken by their landlords.

7. Associated documents

7.1 This Insight Report is based upon the following more detailed reports and papers which we are now also publishing at the same time:

- *Consumer Participation in Energy Policy – technical Research Report*, Ipsos MORI & Involve, May 2017
- *Scotland's Energy Efficiency Programme (SEEP): consultation response*, CFU, May 2017
- *Energy efficiency and condition standards in private rented housing: consultation response to the Scottish Government*, CFU, June 2017
- *Meta-analysis and scoping exercise into public participation in the regulated industries* – a technical report which the CFU commissioned from Ipsos MORI Scotland and Involve prior to embarking upon the cross-sector programme of deliberative research, including the energy study above. Within the next few months, we plan to publish a further Insight Report, and host an event, to disseminate the wider findings about research methods, and about consumer participation in the regulated sectors.

Consumer Futures Unit

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