Green Finance Institute

Stimulus actions for a greener and more resilient property sector

A report by the Coalition for the Energy Efficiency of Buildings

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Introduction

Stimulus actions for a greener and more resilient property sector

The world is facing an unprecedented crisis with widespread impacts on the health of citizens, businesses and economies. Initial government spending rounds worldwide have focused on maintaining liquidity across businesses and households, however as we emerge from the Covid-19 pandemic there is an opportunity to 'build back better' and deliver a green economic recovery that benefits society and the planet.

This short report presents the insights and ideas discussed at a roundtable of experts, drawn from members of the Green Finance Institute's Coalition for the Energy Efficiency of Buildings (CEEB) including banking and insurance specialists, economists, housebuilders and civil society. The report summarises the practical actions put forward by the group to stimulate consumer demand, scale up the retrofit supply chain and promote the construction of low carbon buildings, in order to support the economic recovery of the UK's building and retrofit sectors, and actively contribute towards the UK's climate targets.

Stimulating consumer demand

The lack of demand for energy efficiency improvements, from property owners and tenants alike, is a critical barrier to decarbonising the UK's building stock.

In the aftermath of Covid-19, whereas some workers will have benefited from lower outgoings during the lockdown period (e.g. reduced travel, entertainment and living costs) and will therefore have higher levels of disposable income to potentially invest in their homes, many in the worst-hit sectors will be facing unemployment and dire financial consequences.

The recommendations below recognise both these outcomes, comprising suggested interventions to promote innovative debt products alongside grants and subsidised funding arrangements. Each recommendation is accompanied by an indicative ranking of its potential to create jobs, be delivered at speed and generate cross-sector benefits, on a scale ranging from high to low potential.

	Recommendations	Job Creation	Speed of Delivery	Cross-sector Benefits
Near-Term Actions	**Energy efficient technology rebate system** Similar to the US 'Cash for Clunkers' scheme, property owners are incentivised to upgrade inefficient or fossil fuel technologies (e.g. old windows, boilers) to efficient and clean ones through a government grant or voucher scheme. The proposed Clean Heat Grant from 2022 could be brought forward to this year and offered alongside, Renewable Heat Incentive support. While providing immediate stimulus to eligible technologies and associated supply chains, the scheme also increases household disposable income.	●	●	●
	VAT reform to stimulate energy efficient renovation At minimum, reintroduce the reduced rate of VAT payable on Energy Saving Materials (ESMs) to the previous level of 5%, rather than the standard rate of 20%. For higher impact and wider construction sector stimulus, introduce 0% VAT on all renovation activity, conditional on the inclusion of energy efficiency measures.	●	●	●

Key:

● High ● Medium ● Low

	Recommendations	Job Creation	Speed of Delivery	Cross-sector Benefits
Near-Term Actions	**Landlord and business energy saving allowance** Reintroduce the Landlords Energy Saving Allowance (LESA) that allows the cost of acquiring and installing certain energy-saving items to be deducted when calculating taxable profits, made to Landlords who exceed Minimum Energy Efficiency Standard (MEES) requirements. The allowance could be extended to SMEs by reinstating the Enhanced Capital Allowances scheme for energy and water-efficient equipment, and targeted communications could improve uptake.	●	●	●
	Domestic energy efficiency salary sacrifice scheme Comparable to the 'Ride to Work' scheme, employees draw a loan through their employer to invest into home energy improvements and repay the financing via gross salary contributions.	●	●	●
Longer-Term Reforms	**Property Assessed Clean Energy (PACE) financing** Financial institutions provide long-term capital for retrofit projects, while local authorities or associated independent third parties collect repayments via an additional property charge that is passed through to the lender. Proven models in Australia, Spain and US.	●	●	●
	Sliding 'bonus-malus' Stamp Duty scale As recommended by the Green Finance Taskforce, a sliding scale of Stamp Duty designed to be fiscally neutral and linked to energy performance could drive demand for more energy efficient properties. Could be preceded by near term action in the form of a Stamp Duty rebate for the purchase of highly efficient properties. A pilot scheme may be of potential interest to Welsh or Scottish Governments.	●	●	●
	Improved data and education Improvements to the quality and availability of energy efficiency data, plus accessible tools to inform retrofit decisions, will help educate and encourage property owners to invest into efficiency improvements. The CEEB is exploring several pilot projects to enhance the existing data infrastructure (see Appendix II).	●	●	●
	Green Help-To-Buy (HTB) scheme The current HTB scheme could be extended beyond new-build housing and repurposed to preferentially support first-time buyers to purchase an energy-efficient and resilient home, through minimum EPC criteria or government guarantees to support energy improvements once the property has been purchased.	●	●	●
	The value of energy efficiency Any government-backed schemes should educate the market on the long-term financial and wider benefits of energy efficient buildings, thereby encouraging a value differential for high performing buildings and incentivising homeowners to retrofit. The current lockdown has increased public appreciation of the environment and benefits of a comfortable home, providing an opportunity to capture and leverage that momentum.	●	●	●

Key:

● High ● Medium ● Low

Scaling up the retrofit supply chain

Decarbonisation of the UK building stock is a critical lever to achieve the net-zero emissions target by 2050, however the retrofit supply chain – from material supplies, manufacturing capacity and qualified installers – is not sufficiently mature to deliver the necessary volume of projects.

A stimulus package should consider measures that scale up the supply chain and unlock economies of scale that deliver benefit across all sectors of the housing market.

	Recommendations	Job Creation	Speed of Delivery	Cross-sector Benefits
Near-Term Actions	**Retrofit programmes for social housing** Large-scale programmes to retrofit social housing portfolios provide a valuable mechanism to deploy public capital and stimulate rapid growth across the retrofit supply chain, from manufacturing to installation. This represents a quick and effective way to unlock economies of scale and bring down costs for the able-to-pay sector, while helping local authorities deliver on their climate emergency commitments. A non-exhaustive list of mechanisms include: accelerated implementation of the £3.8 billion Social Housing Decarbonisation Fund to contribute to stimulus, grant funding on efficient technologies, energy performance guarantees to de-risk projects and unlock favourable financing terms (see Appendix II), and easing borrowing and hypothecation rules for investment into retrofit projects. The proceeds of a Green Sovereign Bond could support these and similar schemes.	●	●	●
	Retrofit programmes for low income households in inefficient homes Area-based programmes to retrofit the homes of households at increasing risk of fuel poverty could stimulate supply chains and job creation in the most deprived areas of the country. This can be supported through accelerated deployment of the £2.5 billion earmarked for Home Upgrade Grants.	●	●	●

Key:

● High ● Medium ● Low

	Recommendations	Job Creation	Speed of Delivery	Cross-sector Benefits
Near-Term Actions	**Retrofit programmes for void and commercial buildings** The systematic retrofit and repurpose of void buildings, both public and commercial, supported by appropriate government incentives and capital – in particular by accelerating implementation of the £2.9 billion Public Sector Decarbonisation Scheme – offers an efficient channel to stimulate the retrofit sector and address the still-present housing shortage. In addition, retrocommissioning – updating a building's electromechanical systems – is a low-cost measure that can reduce energy consumption by up to 20%, which could be more easily carried out whilst buildings are temporarily empty during an extended lockdown period.	●	●	●
	Skills and training programmes A government-funded training programme, available to those looking to upskill or requalify from sectors impacted by Covid-19, delivers the skills and capacity required to address the UK's retrofit challenge. A subsidised training programme could rapidly scale a high-quality supply chain and engage furloughed workers.	●	●	●
Longer-Term Reforms	**Compliance cycles for energy performance standards** To deliver long-term demand certainty to the retrofit supply chain, properties over a specified square footage that fail to meet a local median energy performance standard will be required to follow a performance pathway to improve over a five-year compliance cycle. This complements and enhances the existing Minimum Energy Efficiency Standards (MEES).	●	●	●

Key:

● High ● Medium ● Low

Encouraging the construction of low carbon buildings

While timescales in the construction sector are typically beyond those required for an immediate stimulus package, the opportunity to embed structural reforms into the planning permission and building regulation systems could deliver long-term environmental and health benefits.

A recovery that incentivises housebuilders to develop more efficient and resilient homes, while establishing a causal link between energy performance and property values, would accelerate demand for energy efficient homes across the market.

	Recommendations	Job Creation	Speed of Delivery	Cross-sector Benefits
Near-Term Actions	**Skills and training programmes** A government-funded training programme, available to the construction workforce, delivers the skills required to construct new buildings to net-zero and resilient standards. Subsidised training may also retain skilled workers in the construction sector while on furlough.	Medium	High	High
	Fiscal incentives for energy efficient social housing Grants, subsidised funding and technical assistance for new social housing developments that achieve energy efficiency and resiliency standards that are far in excess of those required, aimed at stimulating low-carbon construction and demonstrating best practice to the industry.	High	Medium	High
	R&D investment into net-zero construction methods Grants, matched funding and other forms of public investment to support research, development and demonstration of energy and resource efficient materials, technologies and methods of construction. This could be achieved by enhancing and accelerating the Government's Transforming Construction Challenge Fund. While delivering jobs in the STEM sector in the near-term, this enhances the UK's position as a leader in building and efficiency research, with the potential to advance the UK's manufacturing base.	High	High	High

Key:

High Medium Low

	Recommendations	Job Creation	Speed of Delivery	Cross-sector Benefits
Longer-Term Reforms	**Adoption of modern methods of construction** Modern methods of construction (MMC) include modular, offsite and timber frame construction practices that are environmentally and economically positive solutions. Government support to increase MMC capacity will create manufacturing and other skilled jobs, while improving the quality of new construction.	High	Medium	High
	Planning reforms to incentivise energy performance Reforms to expedite the planning permission process for developments that meet high energy efficiency, resiliency and social value standards offer an incentive for housebuilders to deliver higher-quality building stock.	Medium	Medium	High

Key:

High Medium Low

Important considerations for stimulus and interventions

Long-term, future proof stimulus
An essential ingredient for a successful stimulus package is impact longevity. It needs to be followed by a long-term programme of fiscal incentives that deliver more than a 'sugar rush' to the economy, while avoiding a stop-start approach that can undermine confidence – critical to accelerate growth in the net-zero building and retrofit sectors.

Speed and reliability
Stimulus packages have to provide support where it is needed, while delivering economic impact with speed and reliability. Existing delivery capacity and capability across the renovation supply chain – spanning policy through to installers – can meet these criteria.

Community-led approach
Research studied have shown that locally-led and area-based retrofit programmes have been recognised to improve the probability of success with improved resident satisfaction, due to higher levels of trust and greater knowledge of the local supply chain.

Boost to consumer spending
After direct rebound effects – such as a household choosing to maintain a warmer home – long-lasting home energy efficiency improvements can secure energy cost savings and increase disposable income, resulting in a persistent boost to consumer spending and accelerated economic recovery.

Conclusion

A programme of stimulus actions and reforms for the net-zero building and retrofit sectors represents an opportunity to accelerate the UK's economic recovery in the wake of Covid-19, while delivering a national building stock that can benefit public health and the environment. Through stimulating consumer demand with fiscal incentives and awareness programmes, investing into a qualified workforce and scaled supply chain, and pivoting the construction sector towards net-zero homes, a green stimulus package has the potential to promote economic growth, create skilled jobs and establish the UK's leadership on this aspect of the climate agenda.

Appendix

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Coalition for the Energy Efficiency of Buildings

The Coalition for the Energy Efficiency of Buildings is an industry-led collaboration with over 50 member organisations, aimed at developing the market for financing net-zero carbon and resilient buildings in the UK. In addition to identifying policy levers, the Coalition is co-designing and launching a portfolio of financial 'demonstrator' solutions that mobilise capital towards the low-carbon building and retrofit sectors. The first wave of demonstrators focuses on establishing the standards, principles and data infrastructure to enable future financial innovation, as shown below, and will be presented in November 2020.

Demonstrator Solution	Description
Energy Efficiency & Property Valuations	Research and development of practical solutions, based on the relationship between energy performance and property valuation, that unlock investment towards net-zero homes.
Metered Energy Savings	A standardised savings calculation methodology to deliver rich data on real-time energy savings over the lifetime of a retrofitted building.
Building Renovation Passports	A tool to increase the rate and depth of retrofits, providing information on what measures are possible and a long- term renovation plan that can be achieved at a flexible pace.
TrustMark 'Call to Action' Platform	A platform to support customers through the full retrofit journey: identifying improvements, sources of funding and linking homeowners to a reputable supply chain.
Residential Retrofit Principles	An industry-recognised certification for financial solutions that support the retrofit of residential buildings to a high standard, to enhance the confidence of lenders and borrowers.
Property Assessed Clean Energy style financing	Financial institutions provide long-term capital for retrofit projects, while local authorities or associated independent third parties collect repayments via an additional property charge that is passed through to the lender.
Green Leases	Green Leases with an 'Energy Alignment Clause' enable landlords to recover the cost of a retrofit, based on the predicted energy savings, and minimise the landlord-tenant split incentive.
Community Municipal Bonds	Utilises a crowdfunding approach to create an efficient, scalable and cost-effective source of funding for local authorities to finance projects that address the climate emergency.
Comfort-as-a-Service	Financial mechanisms to unlock the cash savings in energy efficient and optimised homes, to support the investment case for housebuilders and homeowners to achieve high efficiency standards.
Insurance-backed Comfort Plans	An insurance-backed guarantee mechanism for 'Comfort Plans' to increase confidence amongst early adopters (e.g. social landlords) and improve the financing available for deep retrofit projects.