The collapse of the energy savings insulation industry in the UK:

A history of boom and bust

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Overview

This article sets out the recent history of Government funding for fitting energy efficiency measures into UK homes. The story is one of alternating periods of feast and famine creating huge instability in the market for installers and suppliers. Many private sector companies who operate in this sector have ceased trading or had to lay off their workforces because after having geared themselves up to deliver the energy efficiency measures they found that funding from Government and the large energy companies was withdrawn – often without any prior warning.

This article was first written in July 2015: two weeks before DECC announced it was abandoning future rounds of its flagship Green Deal programme.

The Background

Over the last decade there have been a variety of funding streams supported by the Government to promote energy efficiency measures in the UK housing stock. These previous energy efficiency schemes are summarised below.

Until December 2012 the largest six Energy Suppliers (British Gas, E.oN, EDF, NPower, SSE, Scottish Power) were obligated by Government to deliver energy efficiency installations to domestic properties under two obligations:

- The Carbon Emissions Reduction Target (CERT) and
- The Community Energy Saving Programme (CESP).

CERT

The Carbon Emissions Reduction Target (CERT) ran between 1 April 2008 and 31 December 2012 and followed the Energy Efficiency Commitment (EEC) 2005-2008. CERT required the main gas and electricity suppliers to achieve targets for reducing carbon emissions within domestic properties. For example under these programmes “free” low energy light bulbs were distributed to consumers.

CESP

The Community Energy Saving Programme (CESP) came into force on 1 September 2009 and the obligation period ran from 1 October 2009 to 31 December 2012. CESP was created as part of the government's Home Energy Saving Programme.

The Department of Energy and Climate Change (DECC) had responsibility for setting the overall CESP target and the policy framework. DECC set an overall carbon emissions reduction target of 19.25 million tonnes of carbon dioxide. This was to be met through requiring gas and electricity suppliers and electricity generators to deliver energy saving measures to domestic consumers in specific low income areas of Britain. This obligation was placed on all licensed gas and electricity suppliers that had at least 50,000 domestic customers and all licensed electricity generators that had generated on average 10 TWh/yr or more in a specified three year period.

CESP was designed to promote a 'whole house' approach and to treat as many properties as possible in defined geographical areas selected using the Income Domain of the Indices of Multiple Deprivation (IMD) in England, Scotland and Wales.

EEC and EESoP

The predecessor to CERT was the Energy Efficiency Commitment (EEC) scheme. The first scheme ran from 2002 to 2005 and the second (EEC2) ran from 2005 to 2008. The forerunner of EEC was the Energy Efficiency Standards of Performance (EESoP), which ran from 1994 to 2002. EESoP1, EESoP2 and EESoP3 ran respectively from 1994 to 1998, 1998 to 2000 and 2000 to 2002.

ECO

The Energy Companies Obligation (ECO) is an energy efficiency programme that was introduced into Great Britain in January 2013. It replaced the two previous schemes, (CERT and CESP). ECO places legal obligations on the larger energy suppliers to deliver energy efficiency measures to domestic energy users.

Under ECO there is now another set of acronyms to replace CERT and CESP. ECO has three constituent elements;

1. CERO which stands for the Carbon Emission Reduction Obligation
2. CSCO which is the Carbon Saving Community Obligation
3. And HHCRO – which is the Home Heating Cost Reduction Obligation.

ECO support does not go directly to a household in the form of a payment. It is delivered through energy companies who liaise with householders and landlords in order to identify and implement appropriate energy saving measures.

The Government announced proposals for a set of changes to ECO in December 2013. This included introducing ECO targets for the two-year period to the end of March 2017; reducing the March 2015 CERO by 33%; allowing additional measures (loft and standard cavity wall insulation, and district heating) to be eligible under CERO. The revised regulations were passed by Parliament on 5 December 2014.

The Current Stop-Start Funding Regime

In February 2014 the Government announced changes to the Green Levy that funds ECO and at the same time tried to boost the take up of the Green Deal which proved to be very slow in getting off the ground by launching the Green Deal Home Improvement Fund.

ECO Cuts

By cutting the Green Levy paid by consumers the Government hoped to achieve reductions in the gas and electricity bills paid by consumers. The accompanying reductions in carbon saving targets placed on energy companies meant that these companies were no longer ready to support energy saving measures through the ECO funding method. This has had devastating impacts on the energy saving installers and their supply chain as outlined below.

The Green Deal and Green Deal Home Improvement Fund (GDHIF)

The **Green Deal** was the latest UK government flagship policy aimed at promoting energy efficiency measures in domestic properties. It was given a 'soft' launch by the Department of Energy and Climate Change on 1 October 2012. It introduced a complicated scheme that provides for loans for energy saving measures and was officially launched in January 2013. The loans are repaid through energy bills and transfer with the property rather than those who took out the loan. This means new tenants or owners become liable for a debt they did not enter into - a novel concept in English law. Homeowners are liable to repay the Green Deal charge, even if the promised saving on their energy bills does not materialize. The loans became available on 28 January 2013.

Although Green Deal assessments could be conducted from 1 October 2012, none were done in the first month and only five had been completed nationwide by 28 January 2013. The cost of the loan and the initial up front assessment fee had the effect of deterring many people from applying. The loan rate is just under 8% over 10 years, or 7.7% over 25 years. In addition there is an initial set up charge followed by a £20 annual fee. Failure to repay a Green Deal will lead to disconnection of gas and electricity supplies. Surveys have found little awareness among the general public for the Green Deal. The high interest rates and charges of the scheme have been heavily criticized.

In its first six months after its launch in 2012 38,259 Green Deal assessments had taken place. However only four Green Deals had been taken out

In 2014 a second Green Deal was launched, the Green Deal Home Improvement Fund (GDHIF), as grants rather than the loans which had underpinned the original scheme However funding under this scheme has been released in small time limited tranches which have undermined any solid basis for planning and investment by installers and related suppliers. The trade magazine for the housing sector, Inside Housing, recently carried this article:

"*A £120m GDHIF pot was closed in* July *(2014) after a surge in applications over a two-day period meant the allocated budget had been reached*.

Richard Twinn, policy and public affairs officer at the UK Green Building Council, said:

"*This is a clear illustration of the stop-start policy regime around energy efficiency. These piecemeal pots of funding may be generous for householders but create uncertainty to the industry from one week to the next.*

This latest gold rush will have been exacerbated by the high profile around the sudden closure of the previous funding over the summer. Government need to learn from this ongoing debacle that we need long term drivers for energy efficiency - such as linking Stamp Duty – to avoid this constant boom and bust."

In July 2015 DECC announced it would not be continuing with the Green Deal programme.

The domestic Renewable Heat Incentive Scheme (RHI)

This initiative was launched in April 2014 and is open to homeowners, private landlords, social landlords and self-builders. The aim of the scheme is to help kick start the renewable heat market to reduce the carbon emissions whilst generating money for social landlords and home owners. Landlords taking part need to have an Energy Performance Certificate valid for two years in order for payments to be calculated.

In November 2014 the Government extended this initiative to social housing landlords. Very few social landlords have taken part in the green deal due to concerns about its viability for tenants – and many have complained that applying for the RHI scheme is laborious and complicated.

DECC's changes to the RHI came into play in spring 2015 but take up has not increased – if anything it has declined further partly due to doubts about the new technologies involved.

The collapse in the market

As reported in *Inside Housing* in November 2014 most experts still report that ECO funding outlook is arid at best. Pedro Guertler, head of research at the Association of Conservation of Energy, gave the view:

"*Since March (2014), the ECO installations have fallen off a cliff,' 'It is the lowest level of work since the early noughties*."

Neil Marshall, chief executive of the National Insulation Association, said:

'When you look at the statistics, the schemes for the fuel poor and the vulnerable have all but dried up.'

Based on recent ECO statistics published by regulator Ofgem, in August 2014 the number of installations fell to a 17-month low of 22,000. Of the 100,000 solid wall insulation installations that were planned to be done by March 2017, there are only 37,000 now to be completed. As reported on Wikipedia:

"*Lack of demand for the Green Deal with cuts to the ECO programme have left the energy efficiency industry struggling, the lack of demand has led one company, Domestic & General Insulation, to completely withdraw from the market and will likely lay off 600 staff."*

The level of cavity wall insulation installed in existing UK homes has dropped dramatically in recent years. From a high level of activity in the years 2008-2012 when cavity wall installation was running at 600,000 per year the rate of activity had dropped to less than 300,000 in 2013-14 (These figures include estimates for "mitigation measures" whereby energy companies claim carbon savings based on activities completed in previous years when they exceeded targets set under previous funding regimes.) This halving of activity is expected to have dropped even further when the latest official figures are released.

As stated in DECC's official statistical publication in June 2015:

"*The number of retro-fit wall and loft insulations in the first half of 2013 was low compared to delivery in previous quarters. This reflects a transition phase between the end of the CERT and CESP schemes in December 2012 and the commencement of ECO. Following the end of the CERT and CESP schemes, energy suppliers and generators who had not achieved their targets by 31st December 2012 were able to deliver energy efficiency measures as "mitigation action*"

ECO Brokerage Evidence of Market Decline

This decline in the market involving steep reductions in levels of activity in installing energy efficiency measures has been reflected in the brokerage market where carbon savings are traded. The ECO Brokerage system operates as a fortnightly anonymous auction where providers sell 'lots' of future measures of ECO Carbon Saving Obligation, ECO Carbon Saving Communities and ECO Affordable Warmth, to energy companies in return for ECO subsidy.

Lots sold through ECO brokerage from the 56 auctions taking place up to the end of March 2015 had a total value of contracts let worth £432 million. However as a sign of market decline around a quarter of all auctions saw no contracts let. The low levels of brokerage activity since March 2014 have been affected by a number of factors, including uncertainty following the announced reduction in the obligation before new legislation came into force in December 2014.

Trading has also been affected as a result of reaching the end to the first ECO obligation period because contracts under brokerage are for future delivery (and there will not be certainty of ECO 2 targets until Ofgem complete their compliance checks of ECO 1 measures). The average price paid for lots has been decreasing for the Carbon Saving Obligation, Carbon Saving Communities (CSCO) and ECO Affordable Warmth.

Market Repercussions

Dire impacts have been felt amongst UK heating and insulation businesses who have built up and trained their workforce in recent years. Their plight does not seem to figure at all amongst the policy concerns of DECC or BIS who are responsible for promoting small business in the UK.

The big 6 energy suppliers also seem unconcerned. They have received and pocketed the ECO funds paid by the consumers through their bills and been given a reprieve about how much and when to deliver any carbon savings. We have found a dire picture across the energy insulation industry. Most firms that we have contacted have confirmed that they have already, or plan to, make substantial redundancies amongst their workforce. This is in response to market imperatives caused by frequent chopping and changing in funding streams which has undermined any stable basis for future investment and recruitment decisions.