

LOCAL GOVERNMENT AND HOUSING COMMITTEE LGH-06-03(p.2)

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| Date: | 19 March 2003 |
| Venue: | xxxxxxx |
| Title: | HOME ENERGY CONSERVATION ACT PROGRESS REPORT |

PURPOSE

1. The paper is intended to seek the Committee's views on the report which the Welsh Assembly Government is required to prepare under the Home Energy Conservation Act 1995 (HECA).

SUMMARY

2. Local authorities energy conservation reports required under the Act have identified the potential to achieve nearly a 30% improvement in domestic energy efficiency over 10 years from 1 April 1997.

3. This progress report, required to be published under the Act (as amended by Section 45 of the Government of Wales Act), covers HECA activity by local authorities in Wales during the period from 1 April 2001 up to 31 March 2002. It outlines:

- an introduction to HECA;
- the guidance and assistance afforded to local authorities;
- annual and progress to date reported by local authorities;
- future support and assistance issues for local authorities.

4. Evidence from local authorities' reports points to an improvement of 3.92%

over the five years to the end of March 2002. Progress at this rate is going to be insufficient to achieve the 30% potential improvement identified in the original HECA reports.

5. Only 9 progress reports out of a possible 22 for the fourth round of reporting have been submitted.

6. The lack of profile given to energy efficiency by local authorities is cited as

one of the reasons for this apparent lack of progress. Recognition of this problem in 2001 prompted the Assembly Government with the Energy Saving Trust (EST) and Welsh Local Government Association (WLGA) to establish a post tasked with raising corporate awareness of the issue. The Assembly government has recently indicated its wish to pursue further opportunities against the background of the UK governments recently published Energy White Paper and the Assembly governments own Energy Statement. Both identify a key role for energy efficiency in meeting medium and long terms carbon reduction goals.

7. The Home Energy Conservation Act is an important piece of legislation which will if properly implemented, in conjunction with other Assembly Government and UK sustainability, energy efficiency and anti fuel poverty policies, bring about real progress in reducing the impact of climate change whilst reducing the financial burden and improve living conditions for low income house holds. The investment flowing from energy efficiency programmes will have benefits for Wales in terms of employment and training in both the manufacturing and installation sectors. It is therefore critical that obstacles to progress are identified and where necessary corrective action taken.

RECOMMENDATION

8. The Committee is recommended to:

a. Note current progress and the Assembly Governments intentions, in conjunction with the WLGA and other partner organisations to pursue further opportunities to secure greater commitment to achieving the objectives of the Home Energy Conservation Act.

b) Note the intention to publish a further progress report in 2005.

TIMING

9. This report describing progress over the first five years of operation of the Act is presented as part of the Assembly's statutory obligations to report on progress.

BACKGROUND

Introduction

10. The Home Energy Conservation Act 1995 (referred to as "the Act", "the Act" or "HECA") originated as a Private Members Bill, introduced by Diana Maddock, then Liberal Democrat MP for Christchurch, in the 1994/95 session of Parliament. It received Royal Assent on 28 June 1995, and came into force in England and Northern Ireland on 1 April 1996. The then

Secretary of State decided to delay introduction in Wales so that the new Unitary Authorities had some time to establish themselves before tackling these new duties. The Act designated all UK local authorities with housing responsibilities as "energy conservation authorities" (22 of these in Wales) and established a number of requirements and duties.

11. The Home Energy Conservation Act 1995, and The Energy Conservation Act 1996, which amends it insofar as the definition of "residential accommodation" is concerned, came into force in Wales on 1 April 1997.

12. The Act focuses on the scope for increasing energy efficiency in the housing stock. It requires local authorities as energy conservation authorities to produce reports setting out measures, which would lead to significant improvements in the energy efficiency of residential accommodation in their areas. The first reports were submitted to the Secretary of State for Wales in November 1997. Local authorities were set a target of a 30% improvement in energy efficiency in residential accommodation by 2007 compared to the performance of the stock as at 1 April 1997. Local authorities are further required to publish annual progress reports and send them to the Assembly.

13. In addition to the environmental imperative energy efficiency in housing is vital to the social and economic wellbeing of people living in Wales. It tackles fuel poverty, creates jobs and has important health benefits for people living in cold and damp homes. It is capable of generating real, significant and lasting financial savings through lower fuel bills. The importance of this issue is further illustrated by the fact that at least 220,000 Welsh households were estimated to be experiencing fuel poverty in 1997 (Fuel poverty is broadly defined as those households which need to spend more than 10% of their household income in order to achieve a satisfactory heating regime; for example, 21°C in the living room and 18°C in other occupied rooms).

14. Local authorities are seen as facilitators of change in order to encourage homeowners and landlords to adopt energy efficiency measures as a matter of course. Local authorities were identified as crucial to the success of the Act. The range of functions they perform enables them to motivate and influence other parties. They are also best placed to respond directly to local views and wishes, placing a local emphasis to national policies, thus giving them practical effect in delivery. This is also consistent with the principles of Agenda 21 and with the partnership approach embodied in the UK Climate Change Programme.

15. The Act does not require an energy conservation authority to implement all the measures, which it has identified. Some measures will be outside an authority's direct control, such as work to housing which is not in its ownership. A central role for authorities is to encourage and motivate homeowners and landlords to take up energy efficiency measures – providing appropriate incentives, advice and guidance to ensure that the measures are adopted, and that the resulting cost and energy savings are realised.

Guidance

16. Following consultation with the local authority associations, local authorities and other interested organisations and individuals, comprehensive guidance for energy conservation authorities in Wales was issued by the then Welsh Office in February 1997 as Welsh Office Circular 14/97. The Circular concentrated on the preparation of energy conservation reports, suggested methods of making robust assumptions about the likely energy efficiency of residential accommodation, provided suggestions on the types of measures authorities might want to consider, and advised on many other sources of useful information.

17. The Circular also defined "significant improvement", for the purposes of the Act, as a 30% improvement over 10 years from a 1 April 1997 baseline.

18. In February 1997 a related spreadsheet package was provided by the then Welsh Office to every energy conservation authority. The spreadsheet was prepared for the then Welsh Office by the Building Research Establishment. The spreadsheet was a basic tool to enable each authority to assess the baseline energy efficiency performance of residential accommodation in their area, and to identify measures which would be likely to bring about the significant improvement required by the Act. It was intended mainly for use by those authorities who had no other arrangements in place to establish current performance of the stock.

19. Early in 1998, the then DETR, in conjunction with the Building Research Energy Conservation Support Unit, published detailed strategic guidance – Good Practice Guide 250 – for local authorities in Wales on energy efficiency in housing. As part of the framework of guidance supporting the implementation of the Act, the Guide emphasises the importance of integrating energy efficiency initiatives with wider housing and environmental policies and programmes.

20. Due to the variable content of the first progress reports submitted to the then Welsh Office in April 1999 the Assembly has issued further guidance on producing HECA progress reports. Titled "HECA Report – Checklist of information required" this additional guidance document was issued in May 2000. The intention was to remind authorities of the minimum requirements, in terms of information, as set out in Welsh Office Circular 14/97.

21. To further assist energy conservation authorities in the preparation of their annual progress reports the Assembly engaged consultants to produce guidance and more importantly an associated methodology and software package incorporating, if possible, standardised assumptions. The combined guidance and software will enable all energy conservation authorities to assess the effects of their energy efficiency measures in a more consistent and validated way. This will improve confidence in the annual reports both for the individual authorities and the Assembly. The use of the software will allow easier analysis and amalgamation of the information generated by the annual progress reports. The guidance and

software was issued in August 2001 to all local authorities.

22. The guidance made available demonstrates the Assembly Government's commitment to energy efficiency and the Home Energy Conservation Act 1995. It is also a recognition that the Act is a significant piece of legislation which, with appropriate delivery of improvements by energy conservation authorities, will bring about real change and benefits to the local community and national environment.

Other Assistance for Authorities

23. The UK Government attaches high priority to energy efficiency and fuel poverty issues, and has continued significantly to raise the profile of energy efficiency. Much help and assistance in the delivery of HECA strategies has been made available through a number of programmes. The Government provides financial support for the independent Energy Saving Trust, which offers practical support and advice for local authorities in their duties under the Home Energy Conservation Act.

24. In 2001/02 DEFRA provided up to £1.5 million for the Energy Saving Trust's programme in Wales to promote energy efficiency in the home and in small firms. This programme should be a major help to authorities in carrying forward their HECA strategies. For example:

- the Trust's network of 4 Energy Efficiency Advice Centres in Wales provide free impartial advice to customers in the domestic sector. Customers taking up advice provided by the centres save an average of nearly £54 a year. Some local authorities are utilising the service provided by these Centres, to help take forward the advice and promotion aspects of their strategies, and for collecting and collating data on energy efficiency improvements made by householders;
- the Trust's major promotional programme "*Energy Efficiency*" encourages energy efficiency in the home
- the Practical Help advice service assists local authorities to develop sustainable energy and road transport policies and programmes through policy advice, information on grants and case studies;
- Community Energy is a programme run together with Carbon Trust. The Trust manages this programme to help refurbish ageing heat networks, and build new ones to run on modern systems to provide both heat and electricity. Throughout the UK the capital element has £20 million available in 2002/03 and £30 million in 2003/04;
- the Innovation Programme encourages local authorities and other key organisations to develop new ways of delivering carbon savings in the domestic sector. Funding and

technical support are provided at two stages; for feasibility studies and to implement projects that reduce carbon emissions; and

- the Energy Efficiency Partnership for Homes is facilitated by the Trust, and brings together over 200 organisations and individuals with an interest in energy efficiency from throughout the UK. The budget for the Partnership in 2001/02 was £1 million.

25. The Trust now manages the UK Government's principle energy efficiency

information, advice and research programme for professional housing organisations. The Energy Efficiency Best Practice Programme for Housing had an annual budget of £23 million in 2001/02. The programme has now been split into two parts, the section managed by the Trust promotes and provides a wide range of technical information on housing, including guidance and case studies on energy efficiency, and guides to enable organisations to compare their own energy performance with that of others in equivalent situations.

26. The New Home Energy Efficiency Scheme for Wales (New HEES) is the Assembly's main programme for insulating the homes of the neediest householders. New HEES had an annual budget of £9.6 million for 2001/02. The Assembly budgets for New HEES in 2002/03 and 2003/04 have been approved at £11.1 million and £13.3 million respectively. The Scheme can provide practical support towards progress under HECA. Nevertheless, because Assembly and Government Schemes for tackling fuel poverty only apply to a minority of the housing stock, they should not be considered by authorities as a practical way of delivering all energy efficiency improvements expected from HECA strategies.

27. The Government has worked with Transco (the main gas transportation company) to develop an "Affordable Warmth Programme" to support the installation of modern gas-fired heating systems, including community heating, and insulation in up to 1 million homes in the UK by 2007. The exact number of homes improved will depend on the level of take-up of the scheme, particularly by local authorities and other social housing providers. As part of the programme, Transco is also funding the expansion of training needed to meet the demands for the extra heating engineers which the scheme will entail. To date, over 130 people in Wales have received training, and the company has pioneered three innovative gas sector schemes targeting people on benefits, on the New Deal programme, and those facing large-scale redundancy from companies such as Corus, Corning Optical Fibres and GE Aircraft Engine Services Ltd.

28. The Affordable Warmth Programme uses an innovative application of lease finance to encourage the installation of insulation and gas central heating. This required a change in the tax rules relating to the leasing of heating equipment, which was announced in the Chancellor's March 2000 Budget. The advantage of the scheme for housing providers is that the installation is cheaper (because of the lease basis and capital allowances) and can be

financed more flexibly; and it is hoped this will encourage them to spend more on improvement, or at least, to get greater benefit from the money they spend.

Energy Conservation Reports

29. The initial energy conservation reports prepared by local authorities – effectively their strategies were required to be submitted to the then Secretary of State for Wales by 30 November 1997.

30. Overall, there were encouraging indications from the energy conservation reports on the feasibility of meeting HECA obligations. The vast majority of local authorities had identified a wide range of energy conservation measures, and had confirmed that the potential existed to achieve the indicative figure of 30% improvement within 10 years from 1 April 1997 baseline.

First Progress Reports (1 April 1997 to 30 November 1998)

31. The first progress reports prepared by local authorities were included as part of the local authorities' Housing Strategy and Operational Plans (HSOP) for 1999/2000. These were required to be submitted to the then Welsh Office by 1 April 1999.

32. Generally the quality and usefulness of the majority of the progress reports was disappointing. Only 6 local authorities indicated the percentage improvement made in housing energy efficiency since 1 April 1997. There appeared to be little reference to the guidance issued in Welsh Office Circular 14/97. In fairness to local authorities the brief notes on HECA contained in the Welsh Office Guidance document on Housing Strategies and Operational Plans (1999-2000) may have misled some of them into believing that their progress reports also needed to be brief. However, this did not excuse the lack of statistical information in the majority of progress reports.

33. The paucity of information within the first progress reports made it impossible to present a consolidated report to the Assembly. Consequently further guidance was issued to local authorities in May 2000, namely "HECA Report – Checklist of information required".

Second Progress Report (1 April 1997 to 31 March 2000)

34. As a result of the experience of the first progress reports and in an attempt to give more attention to HECA reporting progress reports were disengaged from the HSOP process and submitted separately to the Assembly. The second progress reports covering the period 1 April 1997 to 31 March 2000 (the first three years of the Act) were required to be submitted by 30 September 2000.

35. Disappointingly only one progress report was submitted within the date stipulated. By December 2000 a total of 16 progress reports had been submitted. Of the 6 missing progress reports 5 local authorities had furnished explanations for their non-production whilst no explanation has been forthcoming from the remaining local authority. Nevertheless, the overall quality of the second progress reports had substantially improved since the first reports.

36. The improvement in Wales for housing energy efficiency during the above

mentioned 3 year period was 2.25%, which equated to 0.75% per annum. The range of energy efficiency improvements reported by the 16 local authorities for the 3 year period was as follows:-

| % Improvement – Range | Number of Authorities in the Range |
|-----------------------|------------------------------------|
| 0.01 to 0.99 | 2 |
| 1.00 to 1.99 | 7 |
| 2.00 to 2.99 | 3 |

| | |
|----------------------|---|
| 3.00 to 3.99 | 2 |
| 4.00 to 4.99 | 1 |
| 5.00 plus | 1 |
| No reports submitted | 6 |

37. The overall low improvement figure was partly attributed to the effectiveness of the monitoring systems in place at local authorities. The development of new monitoring software and guidance issued by the Assembly in August 2001 was seen as an aid to improve the effectiveness of the aforesaid monitoring systems.

38. Regardless of the previous point, however, it was evident that energy efficiency activity across all housing sectors would have to be increased significantly in the future if the target of a 30% improvement was to be met.

Third Progress Report (1 April 2000 to 31 March 2001)

39. The third progress reports covering the period 1 April 2000 to 31 March 2001 (the fourth year of the Act) were initially requested on 22 August 2001 to be submitted by 23 November 2001. However, unforeseen delays in receiving information from a major installer of energy efficiency measures caused the submission date to be deferred to 18 January 2002.

40. A total of 18 progress reports were finally received, one of which was unsuitable for inclusion in the analysis as it contained unclear and potentially contradictory data. The local authorities of the 4 missing progress reports provided no formal explanation for the non-delivery of their reports.

41. The improvement in Wales for housing energy efficiency during the above mentioned year was 0.69%. This compared unfavourably with the previous 3 years' annual average improvement of 0.75%. The range of energy efficiency improvements reported by the 17 local authorities for 2000/01 was as follows:-

| % Improvement – Range | Number of Authorities in the Range |
|-----------------------|------------------------------------|
| 0.01 to 0.99 | 15 |
| 1.00 to 1.99 | 2 |

| | |
|----------------------|---|
| Incomplete reports | 1 |
| No reports submitted | 4 |

Fourth Progress Report (1 April 2001 to 31 March 2002)

42. The fourth progress reports covering the period 1 April 2001 to 31 March 2002 (the fifth year of the Act) were requested on 5 July 2002 to be submitted by 4 October 2002.

43. Up until the end of February 2003 only 9 progress reports had been received by the Assembly, again one report was unsuitable for inclusion in the analysis. Of the other 13 local authorities who have currently failed to furnish a progress report only one has formally notified the Assembly of a delay in producing the required progress report.

44. An improvement in Wales for housing energy efficiency during the above mentioned year can be reported as 0.98%. However this figure is based on only 8 reports out of a possible 22. Consequently this figure cannot be considered as truly representative of the overall improvement made in Wales during 2001/02. Nevertheless, an analysis of the Third Progress Reports (for the year 2000/01) indicates that the same 8 local authorities produced an annual improvement of 0.66%, which was very close to the overall Welsh average of 0.69%.

45. The range of energy efficiency improvements reported by the 8 local authorities for 2001/02 is as follows:-

| % Improvement – Range | Number of Authorities in the Range |
|-----------------------|------------------------------------|
| 0.01 to 0.99 | 6 |
| 1.00 to 1.99 | 1 |
| 2.00 to 2.99 | 1 |
| Incomplete reports | 1 |
| No reports submitted | 13 |

46. The annual improvement figure of 0.98% for 2001/02 is a significant gain on the previous 4 years' annual average improvement of 0.75% (approximate). However, at the halfway stage of HECA's 10 year life the overall improvement in housing energy efficiency of 3.92% would indicate that the target of a 30% improvement within 10 years is not going to be achieved at the current rate. To meet the 30% target energy efficiency activity across all housing sectors will have to be increased significantly in the immediate future.

Future Support and Assistance

47. The Warm Homes and Energy Conservation Act 2000 commenced in Wales on 1 April 2002. The Act requires the Welsh Assembly Government "to publish and implement a strategy for reducing fuel poverty and set targets for its implementation".

48. The Assembly Government intends publishing its strategy following public consultation in March 2003.

49. The Welsh Fuel Poverty Strategy will seek to eradicate fuel poverty amongst vulnerable households as far as practicable by 2010, and as far as reasonably practical no household in Wales should live in fuel poverty beyond 2018.

50. Through HEES the Assembly is setting a target of assisting 38,000 vulnerable households by March 2004, and a total of 95,000 households by March 2007.

51. The Energy Efficiency Commitment (EEC) is an obligation on licensed gas and electricity suppliers to encourage or assist domestic customers to take up energy efficiency measures. It came into operation in Great Britain in April 2002. The energy suppliers recover these costs as part of their charges to customers. The previous Standards of Performance Programme, set by the Energy Regulator under its duty to promote the efficient use of energy, ran between 1994 and 2002, initially for electricity suppliers only. The programme was extended to include gas suppliers in April 2000, with the result that expenditure has doubled to around £7m per year in Wales in 2000-2004 compared to the initial period 1994-2000.

52. The Utilities Act 2000 transferred responsibility for programmes like this from the Regulator to the Government. The Government implemented a new 3 year programme from April 2002, increasing both the scale of the scheme and its focus on disadvantaged consumers. The three year EEC Programme will see around £11m being spent on energy efficiency measures in the homes of disadvantaged consumers in Wales, complementing the Assembly's own Home Energy Efficiency Scheme.

53. It is estimated that there are approximately 41,000 households in Wales that are eligible and capable of benefiting from HEES plus. Of these, an estimated 6,000 properties do not have access to the mains gas network. Additionally, many properties have solid walls and consequently are not suitable for the fitting of cavity wall insulation. There is little that HEES plus can currently do for these 'difficult to heat' properties in terms of alleviating fuel poverty since only minimal insulation and relatively expensive to run heating systems can be offered.

54. Commissioned by the Welsh Assembly Government, National Energy Services Ltd has identified a number of alternatives that offer the prospect of assisting difficult to heat

properties. Their report has now been considered by the Minister for Finance, Local Government and Communities and the Assembly Local Government and Housing Committee, who have concluded that there are merits in piloting of systems based on oil, wood pellet and ground source heat pumps. If successful it would be the Assembly Government's intention to introduce these as alternatives to electricity for households without mains gas under the HEES.

55. The Assembly is grant funding Welsh local authorities to carry out detailed condition surveys of their stock, which includes an energy efficiency assessment. Through gathering this data, it is one of the Assembly's aims that local authorities will be able to identify what cost effective measures can be taken to improve the energy efficiency across the whole of the stock and, as a result, reduce tenants' heating bills and also harmful emissions. Local authorities awarded stock condition survey grant funding as at September 2002 (includes 1999 pilot survey grant) stood at a total of £865,000.

56. The Assembly Government's National Housing Strategy 'Better Homes for People in Wales' provides a vision for the Welsh housing stock that gives "all households in Wales... the opportunity to live in good quality homes, which are in a good state of repair; safe and secure; adequately heated, **fuel efficient and well insulated**..." The introduction of a Welsh Housing Quality Standard will provide a common target standard for the physical condition of all existing social housing within Wales.

57. The Assembly Government will expect social housing landlords to achieve the Welsh Housing Quality Standard for all their dwellings by 2012. Local Authorities were asked to give first indications of the implications of meeting the standard by September 2002 and to develop as part of the move to Asset management plans due to be introduced in 2003.

Financial Implications

58. Any expenditure will be accommodated within the budgets approved by the Assembly. The financial implications to local authorities are impossible to ascertain. However, since the Act, and its obligations, was introduced in Wales in April 1997 it is expected that any expenditure by local authorities will be accommodated within their existing budgets.