

DECARBONISING UK HOMES

2021 SPENDING REVIEW AND BUDGET BRIEFING

SUMMARY

- The 2021 Spending Review and Budget will take place on the 27th October 2021. This is a critical moment ahead of COP26 and will cover three years in recovering from the pandemic and in driving action on climate and nature.
- Around 17% of UK greenhouse gases come from buildings, with 14% coming from homes. It will not be possible for the Government to meet its net zero target without substantially scaling action and investment on decarbonising housing.
- The Climate Change Committee (CCC) estimates that, by 2050, 75 percent of our homes will be heated by heat pumps¹. The UK is currently lagging behind our European neighbours on the roll out of heat pumps², and the government's current plan to decarbonise homes won't cut emissions enough to meet its own legally binding climate commitments.
- The 2021 Spending Review and Budget is the opportunity to rectify this. The Chancellor must commit to an extra £12 billion of public investment to green our homes (with £4.76bn for heat pumps, alongside £7bn for energy efficiency over the next three years). This should be delivered in the form of a comprehensive package of grants, loans and tax incentives that would see the deployment of heat pumps rapidly ramped up, covering the full cost for low-income households, and alongside a commitment to phasing out new gas boiler installations early in 2030s and a fully-funded programme to properly insulate our homes.
- If the government acted now, up to 138,600 new jobs could be created and the economy would be boosted by £9.8bn by 2030.

INTRODUCTION

Gas boiler heating systems in poorly insulated homes have resulted in housing being directly responsible for around 14% of the UK's total greenhouse gas emissions. This poor quality of UK homes is also a drain on public resources and productivity, whilst a properly funded, ambitious programme to insulate homes and swap gas boilers for low-carbon heating sources would deliver huge economic and social benefits.

As the recent surge in gas price shows us, ending our reliance on gas will be economically advantageous. Our exposure to volatile global gas prices underscores the importance of investing in energy efficiency and building a strong, home-grown renewable energy sector.

As hosts of COP26, the UK has a profound responsibility to deliver ambitious domestic action to tackle the climate crisis and set an example for other countries to follow. However, the UK is lagging behind its G7 allies on green spending³, and the government's current plan to decarbonise homes won't cut emissions enough to meet its own legally binding climate commitments. Heat pumps allow homes to be heated highly efficiently and deliver zero carbon heating, but for its size, the UK has the worst sales record and the second worst installation record in Europe⁴.

By investing £3.9 billion per year for three years, the government can get UK housing stock on the way to be cleaner and greener and bring the price down for further action in the remainder of the 2020s and 2030s. Octopus Energy already expects to halve heat-pump cost in 18 months to £5,000.

It would be a huge missed opportunity if the Treasury fails to use the 2021 Spending Review and Budget to deliver the required extra £12bn to green our homes next month. Failure to do so will cost the UK economy much more in the long run and we would miss out on a vast array of social, economic and environmental benefits.

NEW ECONOMIC MODELING SHOWS ECONOMIC AND SOCIAL BENEFITS OF GREEN HOMES

If the government acts now to decarbonise our homes, this would have wide ranging social benefits and pump billions into the economy, as evidenced by a recent report produced by Cambridge Econometrics on behalf of Greenpeace UK. The analysis used macroeconomic modeling to assess the impact of three housing decarbonisation scenarios. The central scenario, taken from recommendations by the Climate Change Committee (CCC), aims to install just over one million heat pumps per year by 2030 and upgrade energy efficiency of all buildings to EPC C standards within the next 10-15 years. The report found that under this scenario, up to 138,600 new jobs could be created and the economy boosted by £9.8bn by 2030 depending on the way the government supports the transition. The other two scenarios were also based on the CCC's recommendations but one used the deployment figures in the government's 10 Point Plan (to install just 600,000 heat pumps per year by 2028).

The analysis found that all scenarios clearly demonstrate that alongside the environmental gains, the decarbonisation of residential heating combined with energy efficiency improvements would also be beneficial for the UK economy, with an overall net positive impact on jobs and GDP. However, the greatest benefits would come from the more ambitious rollout of low-carbon heating technologies and energy efficiency.

Investing in green homes could generate economic growth and would have the extra benefits of creating good jobs in every part of the UK and slashing energy bills⁵. In addition the report finds a wide range of social benefits would come from greening the UK's homes. They include lower bills, reduced fuel poverty and a reduction in health impacts related to cold homes, which currently cost the NHS up to £2bn a year. Further benefits include reduced vulnerability to fuel poverty, improved local air quality, greater educational attainment and employment opportunities. Savings to the NHS from warmer homes could be up to £848mn annually and could potentially prevent 10,000 excess winter deaths every year. For more details - see the full report.

Stimulating the heat pump market would help to accelerate a reduction in technology and installation costs⁶ as economies of scale are achieved, meaning the costs of subsidising the programme would rapidly fall over time. Furthermore, accelerating the deployment of heat pumps could create a massive inward investment and global export opportunity⁷ as other countries look to decarbonise heat.

Those living in the most poorly insulated homes are disproportionately concentrated in the North of England and rural areas.⁸ It is vital that there is support in place for all households through the transition to a green society. Greenpeace UK joined over twenty businesses, energy suppliers, green and anti-poverty groups in a call for the Government to back a Fair Heat Deal⁹ to make the transition away from fossil fuel boilers attractive, easy, and fair for all.

THE 2021 SPENDING REVIEW AND BUDGET - POLICY PACKAGE NEEDED

To reap these benefits, the Chancellor must commit to an extra £12 billion of public investment to green our homes along with the following package of measures which will unlock billions in private investment from households and businesses:

1) Energy efficiency infrastructure investment – worth an additional £7bn for the remainder of this Parliament – and a future investment plan to 2030 and beyond. This would provide confidence to businesses and households to invest, leveraging billions in private capital.

The public investment needed is made up of the following elements additional to what is already available:

- Fully support low income households through fulfilling outstanding Conservative Manifesto commitments to the Homes Upgrade Grant (£2.35bn this Parliament, and increasing the pot size next year) and Social Housing Decarbonisation Fund (£3.6bn to 2030, of which £1bn by 2025).
- Get on track for 2030 and make energy efficiency upgrades affordable for all by establishing a new, streamlined grant scheme available for all households – with £3.6bn provided in a 3-year Spending Review, tapering support from 2025.

2) Pump-prime a mass market for heat pumps through expanding grant support, such as the Clean Heat Grant, embedding a fabric first approach to ensure necessary energy efficiency measures are installed first. Provide £4.76bn this Parliament, covering the full costs for low-income households and up to £6,000 to everyone else; introduced alongside additional measures to encourage take-up and create a self-sustaining mass-market this decade allowing the subsidy level to taper as prices fall.

3) Pave the way to green finance at scale with attractive incentives that spur action and investment. This should include Green Stamp Duty and 0% VAT on renovation products and services for greener homes, designed to leverage additional private finance and support new innovative financial products and services which are already being developed by the UK's leading banks and building societies, supporting market growth.

4) Ensure affordable finance for energy efficient, low carbon homes is available to all through the new UK Infrastructure Bank, treating home retrofits as an infrastructure investment priority. Offer 0% loans and blended finance through retail banks, with interest offset by the UK Infrastructure Bank and supported by 'cash back' or grants.

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1. Climate Change Committee '[The numbers behind the budget: Six ways to explore the Sixth Carbon Budget dataset](#)', 2021.
 2. Greenpeace '[The UK's Poor Record on Heat Pumps](#)' Report, 2021.
 3. TUC '[Ranking G7 Green Recovery Plans and Jobs](#)' Report, 2021.
 4. Greenpeace '[The UK's Poor Record on Heat Pumps](#)' Report, 2021.
 5. The Government's December 2020 Energy White Paper (p. 116) refers to "annual energy bill savings of £7.5bn", "a persistent uplift in productivity and consumer spending to drive economic growth" and "hundreds of thousands of high quality green jobs right across the UK".
 6. inews.co.uk '[Why fearmongering on low carbon heat is mainly hot air](#)', 2021.
 7. Research commissioned by the Government finds that there is significant scope for inward investment and heat pump exports as the domestic heat pump market grows. BEIS (2020) [Heat pump manufacturing supply chain research project](#).
 8. See on savings BBC News, '[Millions have less than £100 in savings, study finds](#)'; 2016; see on wealth IFS.org '[Geographical Inequalities in the UK How They Have Changed](#)'; 2020; see on energy efficiency Northern Consortium '[The Hidden Costs of Poor Quality Housing in the North](#)'; 2018.
 9. E3G '[Business and civil society groups demand Fair Heat Deal to make clean heating affordable for all](#)' Press Release, 2021.