



Alienergy response to the EU consultation: Financial Support for Energy Efficiency in Buildings

Our comments focus mainly on energy efficiency in residential buildings, from the perspective of a rural area.

(1) Addressing key barriers and market failures

a) Are the market failures identified in the document the most important?

Yes, the document has outlined the key failures, although our view is that the emphasis of different factors presented does not reflect the situation in rural Scotland. While energy costs may be relatively low compared to other factors for businesses in London or Germany, that is definitely not the case in Argyll, where, in common with other rural areas in Scotland, businesses struggle with high energy costs. The major proportion of energy costs for businesses and residential customers in rural Scotland are for space heating (due to the property types and climate) and travel costs (due to high fuel costs and travel distances). Energy efficiency is a major concern for the majority of householders, and this is reflected by the relatively high proportion of households in fuel poverty (using the current definition - 35% across Scotland; 38% across Argyll, with rates as high as 50-60% in some wards). The inconvenience factor discourages a large number of householders from taking up energy efficiency measures, but in our experience the up-front cost is the most important factor, particularly for the deeper measures. Part of the inconvenience issue is also related to cost – as installation of measures such as internal solid wall insulation, and to a certain extent new heating systems, also incur additional costs in redecorating, room clearances etc. Split incentives are a very real problem in the private rented sector and in apartment blocks, where the agreement of other parties and co-operative action is difficult to achieve – even when offered under free to the householder schemes such as the Scottish Government's Universal Home Insulation Scheme.

Information failure is a barrier: there is a lot of information available but it is not being delivered in the right way. Households and businesses need in-depth advice and information that is tailored to their individual needs. Lack of knowledge and expertise at the local level is an important issue – in local installers and tradesmen, as well as domestic, business and public sector customers. There is also a degree of mistrust of commercial companies offering energy efficiency measures such as insulation and this is partly driven by the highly competitive nature of the market and the practices of some of these companies. There is a need for more locally delivered unbiased advice and information for consumers and better control of the activities of installers.

b) Which are the most important barriers for implementing energy efficiency measures?

In more remote rural areas such as Argyll in Scotland, the main barriers for implementing energy efficiency measures are financial and lack of suitable skills locally – all relating to weaknesses in local markets for energy efficiency measures. Local skills gaps are most significant for installation of the more expensive measures such as internal and external solid wall insulation and renewable heating systems. Also, smaller Local Authorities lack skills and resources to finance and deliver locally initiated schemes or to develop new mechanisms for financing energy efficiency measures in domestic or micro/small business premises.

ARGYLL AND BUTE COUNCIL OFFICES, LORN HOUSE, ALBANY STREET, OBAN, PA34 4AR
Tel/Fax: 01631 565183

www.alienergy.org.uk mandie@alienergy.org.uk

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For individual householders, a lack of available capital and an aversion to further debt (even where interest free loans are offered as part of Government funded schemes), is a major deterrent to uptake of the more costly measures. The Green Deal Scheme, which is being introduced by the UK Government, will improve access to energy efficiency measures for many people but uncertainties exist over the potential for the scheme to stimulate markets for more costly measures (such as solid wall insulation) in rural areas, where there is a high proportion of solid wall buildings without lofts but where scattered populations and large travel distances increase costs and logistical problems.

In rural parts of Scotland, such as Argyll, lack of skills locally means that energy efficiency measures are delivered by companies from outwith the area – usually the larger players - who will pursue the most cost effective work, leaving people in the most remote areas either without access to measures or faced with costs that are unviable.

As outlined earlier, households and small businesses can access a great deal of generic information but very little specific, tailored advice and information that is objective, unbiased and not related to selling of a particular product or service. The crowded nature of the market for domestic energy efficiency measures means that it is extremely difficult for householders to determine whether the advice/information that they are being given is reliable and if a company is offering a good deal.

c) How could these barriers – and the possible market failures due to these barriers – be best addressed? (For example how to better stimulate households to take action in energy efficiency? How to further increase awareness?)

- Information and awareness raising activity should be delivered locally by trusted sources who are embedded in local communities.

Fuel poverty is a key driver for improving energy efficiency in rural Scotland and the high heating costs experienced in many areas means that a large proportion of the population are already engaged and interested in saving energy. The problem is in translating that awareness into a desire to change and consequently, into action. In our experience, locally delivered campaigns and schemes result in the highest uptake rates. For deeper measures, and especially for micro-renewables, existing advice provision is too generic - locally provided advice and support that is tailored to the household's specific situation and needs and is delivered face to face is required. People learn by example and local networks of people who will champion energy efficiency and demonstrate the benefits locally lead to long lasting changes in behaviour and attitude. The Climate Challenge Fund supports community projects across Scotland and has been successful in raising awareness and winning hearts and minds. Energy saving Scotland advice centres deliver information, advice and support but these often cover large areas – action needs to be more focused locally.

- Focused area based schemes have proved to be effective in concentrating measures and raising awareness in defined areas

The Scottish Government has delivered a Universal Home Insulation Scheme across Scotland over the past 2-3 years, which offers free insulation measures to households in defined areas and is managed through Local Authorities. To date, measures across Scotland have focused mainly on loft and cavity wall insulation but if the scheme continues to be rolled out, the focus will need to shift to solid wall insulation, fuel switching and renewable heating systems.

- Measures need to be installed at very low up-front cost to the householder/small business, many of whom exist on low incomes. Finance mechanisms need to accommodate different local circumstances and subsidise energy efficiency improvements for lower income households.

In order to reach wider numbers of households, the UK's Green Deal Scheme will need to offer sufficient support to make these more expensive measures more affordable and to ensure that the scheme is offered equitably across the whole of the UK. Many issues, including access to accreditation for local assessors and installers; the range of accredited insulation systems that can be used; local skills gaps and the relatively

ARGYLL AND BUTE COUNCIL OFFICES, LORN HOUSE, ALBANY STREET , OBAN, PA34 4AR
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high install costs in rural areas all need to be addressed. Households living in hard to treat properties in rural areas should not be disadvantaged in terms of access to loan finance; the repayment rates and periods for these loans and the overall level and quality of service received.

- Finance schemes should be co-ordinated at the Local Authority level, to ensure that they align with local needs and circumstances. Smaller Local Authorities should be helped to establish local schemes and finance mechanisms.
- The potential for renewable energy to improve household energy efficiency, coupled with insulation measures and behavioural change, needs to be realised more effectively and made more accessible to people on lower incomes, who could be helped through third party agreements organised through local agencies, local government or social enterprises. Locally managed revolving funds could be used to finance these schemes but actors in rural areas require more support to make this happen.
- Increased activity to improve knowledge and address local skills gaps is needed so that local installers are positioned to serve local markets in energy efficiency. Local companies are better placed to offer customer care and to meet local needs.
- EU funds should be made more accessible to local actors; third sector organisations and social enterprises should be supported to play a more significant role in the delivery of energy saving activity locally – not simply through time limited project funding but using more sustainable funding mechanisms.

(2) Improving access to financing

EU and national funding

a) Are the current EU-level financial tools for energy efficiency in buildings effective (e.i. cohesion policy funding, EEF-F)?

The greater emphasis on energy efficiency and renewables in cohesion policy programmes is beneficial. Current financial tools are producing some interesting and useful results but they could be far more effective than at present and they need to be made far more accessible. The difficulties in accessing the funding and the many and various hoops that need to be gone through during the application process discourages many organisations from applying. The delay in receiving final grant payments, which can be long and may be significant even for front loaded projects, is a significant problem for many organisations. The rigorous need for innovation, replication and transferability mean that many valid projects are not attempted at the local level. Organisations in rural areas do not always have the means to develop innovative projects, whereas replicating existing ideas may work well – and in these areas loan funds are insufficient to implement existing/tested approaches because local markets are smaller and more complex due to geography, peripherality etc. Bulking rural areas into larger projects make them less responsive to local need and circumstances.

b) How could the uptake of EU-level funding for energy efficiency (including cohesion policy funding) be improved?

By providing greater clarity on the scope of each fund and the relationships between different funds; by simplifying the application and claims/reporting processes and by allowing more flexibility in the way that the funds are used, thus enabling project delivery to be iterative and adaptable to changing circumstances and need. The energy sector is rapidly changing and the landscape is very crowded in some places but with significant gaps in others, so funding streams need to be adaptable in order to respond to, and guide, these changes. Improved information and awareness of the available funding is needed – particularly to wider range of third, community and private sector bodies and improving the support that is available for the application process.

c) How could both national and EU financing schemes be improved to best cover all segments of the market (residential, commercial, public buildings, etc.)?

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- By introducing flexibility that takes account of local circumstances. In rural areas, this means increasing grant element for investments; reducing the complexity of criteria for private sector contributions, particularly from energy suppliers, and providing greater clarity to consumers.
- Particular provision needs to be made for rural areas, where market stimulation alone won't be sufficient because financiers/investors and installers focus on areas of high population density where larger projects and economies of scale enhance viability of their investments. Particularly for domestic and small business markets, this leads to inadequate coverage of service provision or unacceptably high costs in rural areas.
- National schemes should therefore have an area focus and local players need more support to deliver these schemes locally. For example, the establishment of revolving loan funds in rural areas would require far more assistance than is currently available, due to the dearth of private finance options and the fact that Local Authorities are smaller and less well off compared to public sector in large urban areas. This is coupled with the fact that in Scotland, properties in rural areas tend to be older, hard to heat/hard to treat, requiring deeper measures with higher inherent cost and higher installation costs due to remoteness and peripherality.
- Funding available to rural areas is more restricted and tends to centre on grant that is focused on research and innovation, which is not always relevant – often it is valid to implement ideas that are being tried elsewhere. Although the requirement for partnerships between a number of countries brings benefits, it also restricts many potential applicants who have viable projects but find it difficult to make contact and work with partners in other countries.
- Third sector organisations, community groups and social enterprises should be given more assistance to access funds as they can play an important role in promoting and delivering energy efficiency improvements locally. Many are well placed to deliver, or be involved in, local energy efficiency projects but these types of organisations need far more assistance in order to access EU funding as well as national funding streams. This could be facilitated by regional agencies or local authorities but the smaller authorities covering rural areas with large geographies and dispersed populations do not have the resources to provide intensive support that is needed.

d) Where is EU funding still needed and what could be the future role of EU level financial instruments? (e.i. complement national and regional financial instruments)?

EU funding is needed to help establish and support delivery mechanisms in areas where the markets could not support these alone. EU funding streams should have greater flexibility so that they can complement national and regional financial instruments more effectively. There is no one-size-fits-all in terms of stimulating delivery of energy efficiency improvements – there are significant differences between countries and between different local authority areas within countries. Mechanisms need to be sufficiently adaptable to meet local need; funding needs to be sufficiently flexible to enable the process to be iterative and informed by experience on an ongoing basis. The Local Authority level is the most appropriate scale for delivering energy efficiency schemes because this combines a strategic overview and co-ordination with a sufficient scale of resources, combined with greater flexibility and local intelligence, relevance and accountability.

Private sector funding

a) How could more private financing (both from institutional investors as well as building owners) for energy efficiency projects be mobilised?

For public sector and large businesses, including the environmental and social costs in energy costs and aligning pay to save schemes with these revised costs.

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- b) *What would be the role of public funding (both at EU and national level) for helping to mobilise private funding?*

Making public funding available to match or underpin private funds in a way that is flexible and responsive to needs and using public funding to front-load new schemes, such as loan funds. In the domestic sector, making more funding available for area wide schemes where measures are free to the householder (for example the Universal Home Insulation Scheme).

- c) *Is there a need for guarantee systems related to building efficiency investments? If so, what guarantee systems for efficiency investments would be necessary and how should they be designed?*

A Loan Guarantee Fund, as proposed for Green Deal in the UK, appears to be the most appropriate way forward. In the residential sector, householders should not be required to provide collateral for financing of energy efficiency improvements as this approach would severely disadvantage people on modest incomes and who live in fuel poverty.

Capacity and know how

- a) *Is access to (project development) technical assistance an issue and how could it be provided most efficiently at the national, regional and local level?*

Yes, access to technical assistance is a significant issue locally and nationally in Scotland. Most energy efficiency projects have a fairly high technical specification and the expertise can be lacking at the regional and local level. This assistance is best provided locally but organised and co-ordinated across Local Authority areas by energy agencies working at the Local Authority scale (or by the Local Authorities themselves). National funding streams are needed to support this function.

- b) *Is there enough capacity and knowledge regarding energy efficiency investments locally? And if not how could this situation be improved? (i.e. via guidance)*

There is insufficient knowledge of energy efficiency investments locally and very little capacity (knowledge, expertise, physical and financial resources) to realise or access these investments. Guidance would be useful but this also needs to be backed by advice/support provided at the local level.

(3) Strengthening the regulatory framework

- a) *Is there any need for further EU-level regulation to stimulate energy efficiency investments in buildings beyond the Commission proposal for a new Energy Efficiency Directive? If so, what should these measures entail?*

No

- b) *What specific measures could be taken at national level to implement and complement most effectively the EU-level regulatory framework for energy efficiency?*

- Adequate financing for renovations to public buildings. Public sector bodies that cover large rural geographies need to maintain a larger number of buildings, with a combined floor area that may much greater than facilities that are provided in urban areas. The need to renovate at least 3% of that stock could place serious financial constraints on many public bodies in rural areas, particularly as costs are inherently higher (larger number of separate buildings to upgrade; higher installation costs locally) and incomes from taxes are lower.

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- Explain the regulatory framework to the public and raise awareness of the energy efficiency targets – with improved promotion of action to improve energy performance of public buildings, and awareness of how savings are achieved/what it costs – and relating this to how savings can be made in business/domestic sectors.
- Provide greater clarity and consistency of measures offered under Energy Efficiency Obligation Schemes so that local authorities and other organisations don't need to shop around in order to secure the required contributions to specific installation programmes.
- Ensure that the framework and support for provision of energy services, energy audits and energy efficiency measures is equalised so that it is not dominated by supply companies and other large players, and so that it facilitates participation by a range of organisations such as local authorities, community bodies, small businesses and social enterprises.
- Reduce bureaucracy of public procurement processes and ensure that whole lifecycle costs are included in tenders.

(4) Good practice examples

a) How are you financing energy efficiency measures? (Please give examples from your municipality / region)

In the past, energy efficiency improvements in residential properties across Argyll have been largely self-financed with some funds received from energy suppliers via the Carbon Emissions Reduction Target and Community Energy Savings Programme. Installations have often been initiated through commercial companies offering their services via marketing campaigns. Through this route, installations have been restricted to loft and cavity wall insulation. Eligible households on low income and receiving benefits have received insulation and new central heating systems (where they qualify) through the Energy Assistance Package, financed through government and promoted and administered by the Energy Saving Scotland advice centre. Households have accessed Home Renewables grants for micro-renewables installations, prior to the introduction of Feed in Tariffs and Renewable Heat Incentive.

Since 2010, the key mechanism for delivering residential energy efficiency locally has been the area based schemes operated by the Scottish Government; firstly the Home Insulation Scheme, which offered loft and cavity wall insulation and was delivered by Argyll and Bute Council with the Energy Saving Trust, followed by the Universal Home Insulation (UHS), which is delivered by Argyll and Bute Council using a local delivery agent. In Argyll, the project has focused on dealing with hard to heat, hard to treat dwellings and the measures have included internal solid wall insulation, together with loft insulation and draught proofing; cavity wall insulation is also offered but the area has fewer numbers of house types requiring this measure. UHS delivers very intensive measures over quite small areas but the focused effort and concentration of resources has resulted in good engagement and uptake rates.

b) Are there examples of good practice at national or regional level (with data on costs and benefits) that could be applied more widely?

The Universal Home Insulation Scheme, operated by Scottish Government is a good example of an area based scheme.

Alienergy 18/05/2012

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