

British Energy Efficiency Federation

Westgate House, Prebend Street, London N1 8PT
Tel: 020-7359 8000 Fax: 020-7359 0863

7 October 2002

David Kemp
HM Treasury
Parliament Street
London SW1P 3AG

Dear Mr Kemp

Economic Instruments to improve household energy

1. The British Energy Efficiency Federation was formed in 1996 at the instigation of the UK Government, in order to provide a forum for consultation between the relevant trade associations within the energy efficiency industry and Government. As such it meets quarterly in plenary session formally with Government. Its member associations are listed in Annex A.

2. Members welcome this consultation, and the obvious determination of Government to ensure the long awaited 'step-change' in the marketplace for energy efficiency in the residential sector. We have attached to this letter in Annex B a document entitled *The Clean Dozen*. At our plenary meeting on September 3, 2002, members unanimously agreed to endorse this document.

3. We welcome in particular the inclusion within the consultation document of experience gathered within other EU countries of initiatives designed to stimulate the marketplace for residential energy efficiency. We are certain that there are important lessons to be learned from overseas experience.

However, it should be noted that uniquely the UK begins with a fiscal policy deliberately designed to minimise the impact of price signals to the residential sector. For instance, unlike many energy conservation measures, energy consumption in the UK carries Value Added Tax only at the very lowest permitted rate of 5%.

4. Further, unlike all our northern European partners, our energy tax (the Climate Change Levy) has been deliberately designed to avoid the residential sector, concentrating instead entirely upon the business sector. Whilst we fully respect the Government's right to choose to shield the residential sector from such market signals, the consequence is that the need for the introduction of effective economic instruments (and other market interventions) is thus more necessary in the UK than elsewhere.

5. The consultation document makes no reference to the current intervention in this marketplace each Christmas, when all pensioner households (on a non-means tested basis) receive £200, specifically intended to enable extra domestic fuel to be purchased. Whilst recognising the social welfare aspects of this policy, there is little question that a significant number of the recipients cannot legitimately be described as being in 'fuel poverty'. We believe that there would be considerable merit in offering each year, as an alternative, a package of energy saving measures, thereby reducing future fuel bills and carbon dioxide emissions, and improving comfort levels. We should

be pleased to work with the Government to design a viable system to deliver this alternative.

6. We have welcomed the discussions we have had with the representatives of the Government to date following the publication of this consultation document, and confirm our readiness to continue these should it be deemed helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A. Warren', with a stylized flourish at the end.

Andrew Warren
Chairman

Attached:

Annex A – List of BEEF Members

Annex B – Clean Dozen

Annex C – BEEF Statement June 11, 2002

ANNEX A

British Energy Efficiency Federation

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The following Associations are members of BEEF:

Association for the Conservation of Energy

BEAMA Energy (British Electrotechnical and Allied Manufacturers' Associations)

BMF (Builders' Merchants Federation)

BRECSU (Building Research Energy Conservation Support Unit) [ex-officio]

BRUFMA (British Rigid Urethane Foam Manufacturers Association)

Carbon Trust [ex-officio]

CHPA (Combined Heat & Power Association)

DPAA (Draught Proofing Advisory Association)

EST (Energy Saving Trust) [ex-officio]

ESTA (Energy Systems Trade Association)

Eurisol UK Ltd (UK Mineral Wool Association)

FAERO (Federation of Authorised Energy Rating Organisations)

GGF (Glass & Glazing Federation)

HVCA (Heating & Ventilating Contractors Association)

INCA (Insulated Render & Cladding Association Ltd)

LIF (Lighting Industry Federation)

NALIC (National Association of Loft Insulation Contractors)

NCIA (National Cavity Insulation Association)

NEF (National Energy Foundation) [ex-officio]

PFMA (Phenolic Foam Manufacturers Association)

REMA (Rotating Electrical Machines Association)

SBGI (Society of British Gas Industries)

TACMA (The Association of Control Manufacturers)

TIMSA (Thermal Insulation Manufacturers and Suppliers Association)

TLA (The Lighting Association)

THE CLEAN DOZEN

Suggested Fiscal Levers and Policies to assist Domestic Energy Efficiency

Response to Treasury Consultation

Suggested policy initiative	Applying to	Why (i.e. in addition to <i>general CO2/fuel poverty reasons</i>)
1. Set an overall policy objective to achieve a national 20% target for energy <i>efficiency</i> improvement by 2010 (based on current levels), as recommended in the PIU Energy Review. This is virtually the same as the EST target of 12.5% energy <i>saving</i> by 2010 (cf. energy <i>efficiency</i> improvement).		This will affect the extent of the measures – and will ensure that the Treasury adopts the maximum number of new policies. In other words, without a target the Treasury need do very little. Both ACE and the British Energy Efficiency Federation have stressed that, without a firm target, there can be no market certainty and therefore no long-term supply-side investment in energy efficient plant, products and personnel.
2. Cut VAT to 5% on: (a) the supply and installation under Government grant schemes of energy saving materials in homes; (b) the supply and installation of energy saving materials used in non-grant schemes when householders employ contractors.	All insulation materials, including low emissivity glass. Energy efficient central heating and hot water systems (including micro CHP and solar thermal); low emissivity glass.	These products are currently discriminated against as other energy saving materials installed under grant schemes are charged at 5% VAT. These products are discriminated against at present. Other energy saving materials installed by contractors are charged at 5% VAT.
3. Cut VAT to 5% on DIY energy saving materials, bought by a householder to install him/herself.	All	We will argue that EU law <i>does</i> allow this reduced rate of VAT, despite earlier claims to the contrary.
4. Cut VAT to 0% on energy saving materials. The Treasury to report annually to Parliament on what actions at EU level to achieve this.	All	This is currently not allowed under EU law – but the Government has said that it backs a change in EU law. This will keep the issue high on the Government's agenda.
5. Grant subsidy to householders installing certain innovative products. NB. The term 'householder' is used throughout	Micro CHP; heat pumps	To encourage new technology. There is a strong precedent with current 50% grants for photovoltaic installations. The PIU Energy Review said that micro CHP is the most efficient means of carbon abatement. so we need to encourage this new technology for this

<p>this chart to cover all tenures: owner occupiers, private tenants and social housing</p>		<p>reason. As boiler installation only generally happen every 15 years or so, it is vital that people install the most efficient technology <i>at the right time</i>. With other products, timing is not so critical – e.g. whether loft insulation is fitted now or next year, there is little extra inconvenience or cost.</p>
<p>6. Enhance and extend existing capital allowances to allow companies' (e.g. RSLs, Energy Service Providers) investments in <i>all</i> domestic energy saving equipment to be written off against tax in a single year.</p>	<p>All energy saving materials – with >100% allowances on innovative market-leading products such as micro-CHP, heat pumps etc.</p>	<p>This would act as a spur to take-up, and the Treasury would lose no money. Simple extension of existing schemes. Easily tailored to give a boost to innovative products.</p> <p>Capital allowances are currently available for the Affordable Warmth Programme and for non-domestic Energy Service Providers, so that this is only extending a precedent already set.</p>
<p>7. Introduce a stamp duty rebate on house purchase if energy efficiency improvements are made within 6 months.</p>	<p>All</p>	<p>People are most likely to act at the time of purchase, so we need to create an incentive at the 'softest' time. See evidence re take-up in "Evaluating the effectiveness of the Home Energy Report", Rosie Parnell, Sheffield University, September 2001.</p>
<p>8. Introduce a 'domestic business tax allowance' (i.e. a tax allowance against profits/surplus for landlords – private and RSLs - on the cost of energy saving materials)</p>	<p>All</p>	<p>The absence of such a measure means there is no incentive for landlords to install energy saving materials. This is a genuine business expense for them, especially if it becomes compulsory as a result of HMO licensing.</p> <p>Landlords can already claim tax allowances when <i>replacing</i> household materials (<i>not</i> just energy-saving materials). The installation of materials that improve the property is <i>not</i> tax allowable (this is defined as '<i>betterment</i>'). However, the definition of 'replacement' has recently been revised, so that double-glazing can now be classed as '<i>replacement</i>' and <i>is</i> therefore tax allowable. This gives us the precedent for extending the definition of '<i>replacement</i>' to include the installation of all energy saving materials.</p>
<p>9 Personal tax allowance (i.e. allow expenditure on energy saving materials to be set against income tax)</p>	<p>All</p>	<p>This will encourage personal expenditure by those who can afford it, i.e. the fuel rich, and so will have the greatest effect on CO2 emissions.</p>

10. Offer Treasury funding (to councils) for council tax reduction (over 3-5 years) for householders for approved SAP increases. To include immediate rebate for cost of verification survey.	All	There is enthusiasm among local authorities e.g. the Nottinghamshire/Derbyshire Energy Partnership.
11. Treasury funding for local authority energy manager, or HECA* Officer (at an appropriate level of seniority) [* Home Energy Conservation Act]		This would enable local authorities to give greater priority to energy conservation work; it would ratchet in more money and help local markets. HECA professionals are very keen. DETR recommended this in 1999; both the LGA and DEFRA recommended it in 2001.
12. Tax incentives to help energy efficiency companies expand: (a) tax allowance for companies training installers; (b) grant payable to trainees (along the lines of current grants to trainee teachers); (c) tax incentives for investors in energy efficiency companies, perhaps similar to the Enterprise Investment Scheme.		Shortages of staff and lack of capacity in the energy efficiency industry could hamper delivery of Government programmes. Both (a) and (b) could be targeted to help alleviate shortages in key workers (e.g. currently gas fitters). (c) would help companies raise the necessary capital to expand and develop new innovative products (e.g. micro CHP).

SUPPORTED BY

Association for the Conservation of Energy Aberdeen and North East EEAC* David Amess MP Anglesey County Council
Anglia East EEAC Association of Environmentally Conscious Builders Vera Baird MP Gregory Barker MP
Beat the Cold (Stoke-on-Trent) Beds & Herts EEAC Harold Best MP Black Country EEAC Tim Boswell MP
Peter Bottomley MP Brighton & Hove Council British Energy Efficiency Federation Builders Merchants Federation
Bury Metro Council Dr Vincent Cable MP Patsy Calton MP Carlisle & County EEAC Central Midlands EEAC
Centre for Sustainable Energy Sir Sydney Chapman MP David Chaytor MP Cheshire EEAC Chester-le-Street District Council
Harry Cohen MP Conwy County Borough Council Frank Cook MP Cornwall EEAC Cornwall Sustainable Energy Partnership
Council for Energy Efficiency Development Creative Environmental Networks Denbighshire County Council Devon EEAC
Brian Donohoe MP Dow Construction Products Ltd Jim Dowd MP Draught Proofing Advisory Association
David Drew MP Julia Drown MP Durham County Council Easington District Council Energy 21 Energy Action Scotland
Energy Conservation and Solar Centre Energy Projects Plus Essex EEAC Faculty of Public Health Medicine

**Flintshire County Council Barbara Follett MP Don Foster MP Friends of the Earth Friends of the Earth Scotland
Dr Ian Gibson MP Gloucester City Council Gloucestershire EEAC The Green Party Greenpeace Gwynedd County Council
HECA Partnership for 30% Help the Aged Doug Henderson MP Paul Holmes MP John Horam MP
Insulated Render & Cladding Association Council of the Isles of Scilly Jon Owen Jones MP Kent EEAC Peter Kilfoyle MP
Archy Kirkwood MP Lancashire EEAC Mark Lazarowicz MP London Borough of Lewisham Lincolnshire EEAC
London Fuel Poverty Forum London HECA Forum Manchester North EEAC Midlands Energy Efficiency Consortium
Mid and South West Wales EEAC Chris Mole MP National Association of Loft Insulation Contractors
National Cavity Insulation Association National Energy Action National Energy Foundation National Energy Services
National Federation of Residential Landlords** National HECA Forum National Housing Federation
National Right to Fuel Campaign New Economics Foundation Newport City Council North East London EEAC
North Wales EEAC North Wales HECA Forum North West Fuel Poverty Forum North West HECA Forum
Northern Ireland Housing Executive Northern and Western Isles EEAC Northumbria EEAC Norwich City Council
Poverty and Environment Trust RSPB SCARF (Aberdeen) SERA Severn Wye Energy Agency SHELTER
Shelter Norfolk Housing Aid Centre Shropshire, Herefordshire & Stoke EEAC Alan Simpson MP
Society of British Gas Industries Solent EEAC South Ayrshire Council South East Fuel Poverty Forum
South East London EEAC South Holland District Council South West HECA Forum Dr Bob Spink MP
Strathclyde & Central East EEAC Strathclyde & Central West EEAC David Taylor MP Tayside EEAC Paul Truswell MP
Paul Tyler MP UK Public Health Alliance UNISON Dr Rudi Vis MP Warm Hearted Homes Advice Centre (Devizes)
Warwickshire, Worcestershire & Coventry EEAC West Sussex EEAC Betty Williams MP Pete Wishart MP
Women's Environmental Network Wrexham Borough Council WWF-UK York, North Yorkshire & East Riding EEAC Zacchaeus
Trust**

* Energy Efficiency Advice Centre

** Unanimous vote at their annual conference 30th August 2002; awaiting ratification by their Executive

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October 3 2002

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Statement agreed at the June 11, 2002 plenary.

Industry plans long-term investment on government signals. We have, accordingly, acted on those signals re the need to reach CO2 targets and the need to end fuel poverty - and especially on the domestic energy efficiency target being a 30% improvement on by 2010 based on 1996 levels. That has been part of a clear government policy for years now and we have planned our investment and employment policy on this

For that reason we have been much assured by the Government's support for the Home Energy Conservation Bill (Des Turner Bill) - and in particular the making of the 30% target statutory. This target is identical to that recommended in the PIU energy review for the residential sector between 2002 and 2010. This would give us even more certainty and so justification to invest in future delivery.

Rumours now circulating that the Government no longer supports the 30% target, and no longer supports the Turner Bill are deeply worrying. If true, they will have a very bad effect on business confidences and on business being able to act on Government signals in the future.

That will affect us all - our industry, our employees, our willingness to act on Government assurances in the future and, in the end, our ability to help deliver on climate change and fuel poverty targets. We therefore seek reassurance on these points - and hope that all MPs and Ministers will ensure that the Des Turner Bill passes through the House of Commons on 19th July.