

To the members of the Housing Committee

Retrofit has been at the forefront of discussions to tackle climate change and fuel poverty and I wanted to let you know about some work we are doing to promote a policy called Rebate to Renovate. Having researched many market mechanisms to encourage and scale up retrofit in the UK this is the one, I believe, has the best chance of success. We have developed it with the UK Green Building Council and you can see from the attached summary there are a large number of financial and retrofit organisations supporting it. In summary it seeks to change stamp duty based on the energy efficiency of a home and rebate part/all of the stamp duty payment for energy efficient homes. The rebate can be claimed up to 2 years after the purchase allowing home owners to improve the energy efficiency of their homes after purchase with the cost of the retrofit born largely by the rebate. Given the Senedd has the power to set Land Transaction tax (Stamp Duty) there is a real opportunity for Wales to lead the way in building the retrofit market. More details are attached but the key elements of the Rebate to Renovate proposal are:-

1. A home purchase is the key trigger point for people to think about improving their new home including improvements to energy efficiency and it is a moment they are willing to invest.
2. A rebate is offered on stamp duty for energy efficient homes. The more energy efficient the higher the rebate.
3. Energy hungry homes will pay up to a 3% increase in stamp duty (based on current rates)
4. The rebate can be applied up to 2 years after the purchase of a home allowing a homeowner to improve the energy efficiency of their new home once they have moved in and claim the rebate.
5. The rebate levels are calculated to offer a real incentive to retrofit homes.
6. **It is revenue neutral to the treasury because high energy homes will pay an increase in stamp duty of no more than 3% on current levels.**
7. An additional £1.5bn of subsidy for the lowest value homes could be added to ensure low income households are not penalised.
8. It is progressive as it is based on actual energy use (rather than energy use /m² - the current EPC method) meaning the biggest homes will pay more.
9. The rebate 'breakeven' point can be adjusted as the housing stock improves to ensure treasury income is maintained.
10. It would see an 8% improvement in home energy efficiency by 2030.
11. It would stimulate an estimated total investment of £30bn over 5 years from the private sector.

I would be more than happy to talk further about it if you are interested and I believe it could be a key to unlocking the scale of retrofit we need in the Wales.

All the best, Sandy

Rebate to Renovate: Energy Saving Stamp Duty Incentive (ESSD)

*Driving towards net zero:
delivering economic growth, improving energy resilience, and building a sustainable market*

Transforming the existing Stamp Duty Land Tax into an Energy Saving Stamp Duty incentive has the potential to drive a long-term sustainable market for energy saving home upgrades, giving certainty to businesses and empowering consumers giving them choice to upgrade a new or existing home:

- ***A better energy performing home would attract a lower stamp duty.***
- ***Energy performance improvements made within 2 years of purchase trigger a rebate.***

1. The Problem: Leaky homes account for 31% of UK energy demand

The UK's leaky homes are a significant part of the energy security and climate problem. Heating and powering of the UK's 29 million homes accounts for 20% of UK carbon emissions and uses 31% of the energy. Energy security and net zero cannot be cost effectively delivered without tackling them.

However, over the last decade, programmes to improve the UK's owner occupied homes (circa 65% of all homes) have effectively ceased and the industry delivering improvements collapsed.

2. The Answer: It isn't simply more grants but a blend of investment

Whilst targeted subsidy programmes form a part of any energy saving and net zero strategy, for those that don't have means or access to finance, private finance will have to be deployed to deliver the majority of improvements.

Indeed, the prospect of grant funding, for those who can pay, simply causes them to hold off until grants are available and distorts what they chose to buy and from whom - to maximise the 'free money'. It doesn't create the sustained competitive market which industry wants and puts government on the hook for ongoing grant support.

3. The Approach: How do we stimulate such a significant level of private investment?

A market-based approach is required which gives householders and home buyers choice and becomes part of the existing home improvement culture.

a) Structural incentives provide flexible solutions and allow innovation

Introduction of long-term 'structural-incentives', such as nudging Stamp Duty, would create the conditions to produce a thriving energy efficiency market.

Further, as a structural driver **it need not be a burden on the Treasury**. It can reasonably be expected to remain in place as, and when, administrations change, providing the long-term demand so essential for success allowing businesses to invest and drive efficient delivery, high standards and low costs.

b) Structural-incentives and subsidy working together

An Energy Saving Stamp Duty Incentive, combined with grants for lower value homes will be a workable and effective structural solution, working seamlessly with existing green finance arrangements and policies as well as driving innovative new approaches to delivering home upgrades. Critically, it strongly catalyses industry engagement with any short term initiatives the Government may introduce because it provides confidence that the market created will not simply fall away again when the grants are reduced or withdrawn.

**The market will be stimulated to deliver more energy efficient homes
without on-going Government intervention.**

4. The How: How would the Energy Saving Stamp Duty Incentive work?

- ⇒ First, the energy demand (total kWh) of the home is calculated from the independently produced Energy Performance Certificate (already a requirement of a house sale).
- ⇒ The Stamp Duty to be paid is then adjusted up or down based on the home's calculated energy demand - the better the energy performance, the lower the tax paid.
- ⇒ Low energy improvements made within 2 years of purchase, validated by an updated EPC, trigger a rebate to be paid - as if the home had been improved before purchase.
- ⇒ For lower value homes, the rebate is enhanced to subsidise the cost of measures (this aspect is not revenue neutral).
- ⇒ Any recognised improvement in a home's energy efficiency (fabric, heating, services) would reduce the Stamp Duty paid.
- ⇒ With provisions sensitive to the particular challenges of listed homes.

5. The Benefits: What are the key benefits of the Energy Saving Stamp Duty Incentive?

- ✓ Catalyses significant growth – underpins an owner occupier low energy retrofit market of circa £17Bnpa and 300,000 new jobs covering every part of the UK.
- ✓ Explicitly highlights to homebuyers the energy performance of the home they are considering purchasing, motivating them to: seek advice, understand the improvements needed, appreciate the likely costs and to develop a plan – alongside their other home improvement ideas.
- ✓ Provides confidence that a home's energy performance will be reflected in its selling price and rewards homebuyers that act to improve their homes.
- ✓ Embeds a home's energy performance in the wider discussion about financing the purchase alongside other improvements the homebuyer may be considering.
- ✓ Recognises most homeowners undertake significant improvement works shortly after they move in. Combining these with energy improvements reduces the faff, time and disruption.
- ✓ Acting at the point of purchase equity is not 'tied up', capital can be retained to fund improvements.

- ✓ It 'nudges' homebuyers to take action on energy efficiency in a way that is proportionate to the home's value, and doesn't impede housing sales, affordability or social mobility.
- ✓ Is not a subsidy. The Energy Saving Stamp Duty Incentive could be revenue neutral for government or could allow Stamp Duty to taper out altogether, over a decade or two.
- ✓ It is capable of being blended with grant funding for those who are struggling.

6. Next steps: Statement of intent, certainty for businesses and creating a market

If the government made an announcement or **statement of intent** now, with implementation in 18 months to 2 years, homeowners considering selling would have time to act, should they wish, and businesses and government would have the time to prepare.

This approach would encourage immediate action whilst also smoothing roll-out and allowing companies to ramp-up capacity and get ready to deliver – ensuring a quality retrofit programme for all, giving certainty to businesses that there is guaranteed market demand.

Growing support

This idea is gaining momentum. A recent public opinion poll for No.10's 'Nudge Unit' showed 78% support of the policy. A rapidly growing number of organisations have added their support, from banks and estate agents to manufacturers and installers and beyond. They include:



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