

## **Mayor of London's response to the BEIS Energy efficiency scheme for small and medium sized businesses: call for evidence**

We welcome the opportunity to respond to the Call for Evidence: Energy Efficiency Scheme for Small & Medium Sized Businesses. Energy efficiency is critical to achieving net zero carbon emissions. The IPCC report on 1.5 degrees of warming makes it clear that we must aim for this and we look forward to working with BEIS to ensure that energy efficiency is central to efforts to achieve a UK net zero target.

### London's Climate Action Plan

London has one of the strongest climate action plans of any world city. The London Environment Strategy has been certified as being compatible with the highest aims of the Paris Agreement, to keep warming to well below 1.5 degrees above pre-industrial levels. However, with the Mayor's current powers and resources, he can deliver less than half the emissions reductions required to meet zero carbon, and is therefore reliant on the UK Government taking bold action to reduce London's GHG emissions, or devolving the powers and resources to him to do so.

This submission of evidence is based on detailed, bottom-up modelling on how London can follow a 1.5C compatible pathway and become zero carbon by 2050<sup>1</sup>. Most importantly, what this analysis showed was that the national government needs to urgently increase funding for retrofits and to devolve powers to regulate existing buildings to the Mayor to make these retrofits happen.

### Need for regulation

At least 70 per cent of London's buildings need to reach EPC C (or equivalent) by 2030 to facilitate a significant transition to low carbon heat technologies like heat pumps. Only 35 per cent of commercial buildings in London currently reach EPC C. This will require significant effort on the part of the Government, starting now and ramping building retrofit rates up to reach a peak of 12,000 commercial buildings in 2030. Our modelling shows that delaying action on energy efficiency retrofits by even four years to 2022 could add up to an extra £2.5bn to the zero carbon pathway<sup>2</sup>.

The modelling undertaken for London's 1.5C compatible pathway shows that Minimum Energy Efficiency Standards, with rigorous enforcement, will be the most effective policy to drive energy efficiency retrofits. The Mayor, through the London Plan, has powers to set standards for large new developments, and standards in new build commercial buildings are improving. London's own ambitious regulated zero carbon homes policy has led to new homes achieving a 40% improvement on Building Regulations with the carbon shortfall being paid into Borough's carbon offset funds, demonstrating the impact that the Mayor's leadership can achieve. This policy will be extended to non-domestic buildings with the adoption of the new London Plan later this year.

However tackling existing buildings is more challenging and the experience of financial programmes such as the Green Deal shows that voluntary approaches have been much less effective than more ambitious, regulated obligations, such as CERT.

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<sup>1</sup> London's 1.5C compatible climate action plan and underlying analysis can be accessed here: <https://www.london.gov.uk/what-we-do/environment/climate-change/climate-action-plan>

<sup>2</sup> As grid electricity and heating decarbonise, more investment in energy demand reduction will be needed to achieve the same carbon savings. We have the best opportunity to make cumulative carbon savings by acting immediately.

The Mayor would therefore like powers to set Minimum Energy Efficiency Standards to be devolved to him. The Government's commitment to review the Private Rental Sector minimum energy efficiency standards to capture rented commercial buildings is welcome but the Government must remove loopholes in the current legislation and increase the resources available at a Borough level for enforcement for it to have any impact.

### Supporting Mechanisms

Options such as those set out in the Call for Evidence are necessary to help kickstart the energy efficiency market for SMEs. However, they must be viewed as supportive mechanisms to better regulation. The GLA has already been trialling a range of relevant measures to encourage carbon reductions, above and beyond national policy which could help inform new national policies in this area.

### Collective procurement

Collective procurement can be an effective way to reduce costs and also increase trust and engagement in energy efficiency or renewable energy projects. Our Solar Together London scheme showed that collective procurement through a reverse auction can drive action in an area by providing a time limited window for householders to sign up. By partnering with London Boroughs, and undertaking due diligence of potential bidders for the solar installations, the scheme was trusted by participants. The scheme also delivered significant cost savings of up to 30 per cent against the individual price of a domestic solar system due to the cost savings of bulk procurement and installation. Over 600 Londoners have received solar at these cheaper prices.

However, the business model for Solar Together London was supported in its two rounds to date by the Feed in Tariff providing a guaranteed income. The financial drivers for households may also be different from those for SMEs. Combining energy efficiency measures with solar may increase the attractiveness of an auction to SMEs given the visibility of solar however could increase the overall payback period.

### Energy Efficiency Obligation

The Energy Company Obligation (ECO) has been one of the longest running and highest volume retrofit programmes in the UK. It has been successful, although there are several issues that would need to be addressed before a similar offering is made to non-domestic premises. One of the main issues is that it has enabled suppliers to prioritise areas and properties that are easier to retrofit. London has historically received only 7 per cent of ECO funding, despite contributing 13 per cent to the ECO fund and having over 340,000 homes in fuel poverty.

We have repeatedly called on BEIS to offer London a ring-fenced amount for ECO and powers similar to that offered to Scotland to ensure that ECO works for Londoners. A business EEO must ensure that funds are distributed fairly across the country to avoid these mistakes. It should also work to offer a more holistic package to businesses, to avoid the piecemeal approach driven by subsidies of different measures which has been seen in the domestic ECO market. Limiting an obligation to larger energy suppliers could also dampen innovation and any new obligation should be opened up to a greater number of participants. ECO is based on theoretical or deemed energy savings, not the actual savings achieved. The roll out of smart meters offers an opportunity for new energy efficiency programmes to be based on actual impact in terms of carbon reduction and cost savings.

### Access to ESCOs and finance

Access to finance is an important factor in driving retrofit given the high upfront capital cost of some energy efficiency measures. However the provision of low or no interest finance without wider regulatory drivers is likely to fail.

The GLA has investigated ways to improve SME access to ESCOs through the RE:FIT framework. RE:FIT provides a technical assistance service underpinned by energy performance contracts. The GLA ran a small pilot scheme but found that the current RE:FIT model was not suitable for the SMEs sector. The small scale of SMEs meant that a relatively low level of financial savings can be delivered from energy efficiency improvements on each site which were not sufficient to cover the legal costs of establishing the Energy Performance Contract and monitoring the results. In addition, due to the high proportion of renters in the SME sector, any future scheme would need to target landlords.

At present, England lags behind Scotland, Wales and Northern Ireland in the provision of finance to SMEs for energy efficiency improvements. Whilst Salix loans are available for public sector organisations, no similar model exists in the private sector. We have opened up the £500m Mayor's Energy Efficiency Fund to SMEs, as well as public sector organisations. This provides low interest finance for energy efficiency and renewable energy projects. However, due to the legal and administrative requirements on the loans, it can still only be made available to large projects or aggregated projects. Government should introduce a low or no interest loan as part of a wider regulatory package to drive retrofit in SMEs, learning from offerings in other UK countries.

### Conclusions

In order to drive the step change in the level of retrofits required to meet carbon targets, a combination of all of the approaches being considered is likely to be required, underpinned by strong regulation to improve the energy efficiency of existing commercial properties. While we have provided comments on our experience of these three options we want to strongly remind BEIS that any option for an SME energy efficiency programme must be viewed as a support and precursor to effective and enforceable minimum energy efficiency standards for all buildings.

Ends.