

Opposition policy costing – National Warm Homes Plan – Labour

Description of policy

Labour would deliver a ‘national Warm Homes Plan, upgrading every home that needs it’. ‘A Labour government will deliver a national Warm Homes Plan, upgrading every home that needs it to EPC standard C within a decade’ (National Policy Forum, *Final Policy Documents*, 15 September 2023, p.17, [archived](#)).

Keir Starmer vowed that Labour would ‘upgrade every one of the 19 million homes below an EPC B and C over the course of the decade’. Briefing *The Mirror*, Keir Starmer vowed to ‘save’ families ‘£500 on energy bills under plan to insulate millions of homes’ - equating to 19 million homes below an EPC B and C rating ([The Mirror, 14 April 2023](#)).

Additional policy assumptions

Assumptions from Special Advisers:

For clarity this programme is clearly one that is designed to take place over 10 years so the costing should assume 1.9 million homes per year. See, for example, “Labour would deliver a national Warm Homes Plan to upgrade nineteen million homes over a decade” (Labour Party, [Make Britain a Clean Energy Superpower](#), October 2023, p. 10).

Assume ‘upgrading’ means reaching an EPC C standard. See for example, “A Labour government will deliver a national Warm Homes Plan, upgrading every home that needs it to EPC standard C within a decade” (National Policy Forum, *Final Policy Documents*, 15 September 2023, emphasis added).

- **Standard of energy efficiency:** This should be interpreted as bringing up to EPC C all homes that are treated.
- **Number of homes treated:** The latest English Housing Survey report 2021/22 has just over 13m homes below EPC C in England. The latest Scottish equivalent (2021) had around 1.2m below EPC C in Scotland, the latest Welsh equivalent (2017/18) had about 1m below EPC C, while the most recent Northern Irish housing survey (2016) had around 400,000 below EPC C. Altogether that would suggest around 15.8m across the UK below EPC C based on the latest available housing survey data across each country.
- **Funding assumptions:** Assume that all installations are exchequer funded. In terms of existing policy commitments, assume ECO and the Great British Insulation Scheme do not continue beyond their current end date of March 2026, and that any exchequer funding committed to home energy efficiency measures in the £6bn allocation announcement (18 December 2022) is subsumed into the National Warm Homes Plan.
- **Delivery profile:** Note Labour’s recent press release from April 2023, which said “Labour’s Warm Homes Plan would upgrade the energy efficiency of up to 2 million homes a year - upgrading all of the 19 million homes that need it”. Therefore, assume a straight-line trajectory.
- **Costing profile:** Given this is a ten-year policy programme, cover ten years of costs beginning 2024-25.
- **Any limits to costs:** Cost the policy without reference to what Labour have said they might spend in any given year.
- **Upgrade cost per household:** Officials should use the best possible assumptions, but a suitable source may be the English Housing Survey’s average costs of improving homes to EPC C, as a transparent and publicly available approach to deriving a cost per home to get to EPC C.
- **Policy / admin costs:** Policy in this area has always come with significant admin and delivery cost. Officials should draw on their experience of admin and delivery costs associated with past energy efficiency

schemes to estimate the total cost of delivering upgrades to make an estimate of the total cost of delivering this policy. Search costs are likely to be lower than for ECO as the number of criteria are smaller and the addresses of homes with EPC ratings below C are held in a single database. However as with ECO such a policy is likely to incur economic rents, as described in paragraphs 63-70 of the ECO4 Impact Assessment.

Additional technical modelling assumptions or judgements required

Note: these have been made by policy team, consistent with the costings guidance.

- **Homes treated by existing capital and levy-funded schemes:** The starting point is 15.8m homes below EPC C drawing on the latest housing surveys for each UK country, as per the 'Additional Policy Assumptions' section above. Homes treated by existing schemes in FY23/24, 24/25, and 25/26 have been excluded from the costing as these are already in delivery – namely ECO, GBIS, SHDF Wave 2 and HUG 2. This removes around 500,000 homes from the scope of this costing. All funding announced as part of the £6bn for energy efficiency confirmed in December 2023 is assumed to be subsumed into this costing. Further, taking into account natural boiler and lighting replacements (see next bullet) removes a further 2.2m homes from those in scope. This means that the costing is applied to 13.1m (15.8m – 0.5m – 2.2m) homes, spread over 10 years (i.e. 1.31m homes per year).
- **Natural boiler and lighting replacement:** As the policy is assumed to roll out over a 10 year period, during that time any homes whose boilers and/or lighting reach the end of their natural life are assumed to be replaced with a more efficient version outside of the policy. This is a result of products policy/building regulations and the likelihood that households won't be able to wait for a policy to reach them before replacing their boiler or lighting. Pre-existing internal modelling has been used to estimate the number of homes these would improve to EPC C by the end of the 10 year period as a result of these natural replacement cycles. These account for around 2.2m homes and have then been removed from the total number of homes in scope of the costing.
- **Policy / admin costs:** Scheme experience on low-income focused capital schemes, namely SHDF and HUG, suggests admin costs of around 10% - 15%. Given this policy would target any home below EPC C, irrespective of income, we have assumed the lower end of this range and applied a 10% admin cost uplift to the total capital costs of installing measures. We have not applied assumptions around economic rents, as these would be more likely to occur under a supplier obligation-based model, rather than an exchequer funded capital scheme. No further assumptions have been made about additional costs relating to installation standards, such as PAS or TrustMark.
- **Upgrade cost per household:** As instructed we have used the average cost of upgrading a home to EPC C published in the English Housing Survey technical report for 2021-22.¹ Before inflation is applied, the average cost of upgrading a home to EPC C is estimated to be £7,529.
- **Inflation:** In recognition of cost inflation we have applied the inflation rates published in the November 2023 HM Treasury GDP Deflator series² until the series ends in 2028/29, and assumed the Bank of England's target rate of 2% beyond that to 2033/34.

¹ <https://www.gov.uk/government/statistics/english-housing-survey-2021-to-2022-energy>, Chapter 4 Annex Tables, Tab AT_4_3

² <https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-november-2023-autumn-statement>

Cost/Revenue to the Exchequer over five years

Please summarise spending impacts over the next 10 years in Table 1, below

(£m)	DEL									
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Resource										
Capital	-12,500	-12,700	-12,900	-13,100	-13,300	-13,600	-13,900	-14,200	-14,400	-14,700
Total	-12,500	-12,700	-12,900	-13,100	-13,300	-13,600	-13,900	-14,200	-14,400	-14,700

Resource expenditure is not included because all costs are assumed to be capital. Any CDEL/RDEL split would need to be determined by more detailed policy consideration.

Additional notes and caveats

- An uncapped, fully exchequer funded, undifferentiated model:** As instructed we have not applied any spending limits to this costing, which indicates full exchequer CDEL spending of around £12bn - £15bn per year. Previous policy design has differentiated funding levels by household income and has balanced the cost of policies between Exchequer funded schemes/grants and supplier obligations like ECO and GBIS, all of which could potentially considerably reduce the burden on the Exchequer from delivering this policy. We would note that the Opposition has stated publicly that “public investment in home energy ramping up to £6 billion annual investment in the second half of the parliament at the latest”.³
- Delivery and supply chain capacity:** This costing assumes delivery of measures to around 1.2m households per year from 2024/25, up from 100,000 to 200,000 per annum in recent years. No judgement has been made about the ability of the supply chain and delivery partners to deliver this programme. For a broad comparison of Exchequer funding levels, the £6bn confirmed for energy efficiency in December 2022 over 2024/25 – 2027/28 allocated around £715m per year for home energy efficiency (excluding support for heat pump installation under the Boiler Upgrade Scheme), compared to £12bn - £15bn per year in this costing note.
- EPC definitions:** The way in which EPC ratings are measured and defined can change over time. In keeping with the number of homes we have been instructed to model, it has been assumed that the number of homes below EPC C before treatment stays the same over the 10 year period.
- Economies of scale / supply chain cost pressure related to delivery model:** No specific delivery mechanism has been assumed in this costing. However, a large-scale, area-based delivery model would potentially deliver economies of scale on measures like solid wall insulation in particular. No allowances have been included for this. Further, ramping up of delivery at this scale compared to current levels would potentially put significant pressure on the supply chain and give rise to higher installation costs than modelled in this costing. Again no allowance has been made for this in the costing.
- Measure cost optimisation:** The English Housing Survey average costs of upgrading a home to EPC C takes a ‘fabric first’ approach and does not optimise for cost to get to EPC C. This results in measures like solid wall insulation being prioritised and solar PV being deprioritised, when in practice it may be more cost-effective for households to select the latter over the former as a means of reaching EPC C.

³ <https://labour.org.uk/wp-content/uploads/2023/10/Mission-Climate.pdf>, p. 10.

The implication is that the average costs used may be higher than strictly necessary if taking a cost minimisation approach.

- **Household acceptability:** This costing upgrades *all* homes that are not already at EPC C, and makes no allowance for households to refuse upgrades.
- **Barnett consequential:** As instructed the policy has been modelled on a UK basis. In practice, as energy efficiency is a devolved matter, the total cost to the Exchequer would be a result of the capital allocation to England with allocations to the Devolved Administrations derived using the Barnett formula. HM Treasury have advised that applying the Barnett formula would result in a costing approximately 2% lower than that shown in this note.
- **Indirect impacts:** We have not attempted to estimate potential indirect impacts on the exchequer, such as those below, or the reduction in household bills:
 - reductions in NHS costs from reduced cold-related illness
 - changes in VAT receipts from reduced energy consumption
 - changes in VAT receipts from greater installation of measures
 - changes in VAT receipts from consumers spending their bill savings elsewhere in the economy
 - lower costs of supporting heat pump roll out from making homes more efficient
 - lower costs of building electricity generation capacity / network expansion from reducing demand on the grid.

Comparison with current system (if applicable):

This would be a significant expansion in delivery and associated exchequer spending compared to the current system and current future commitments. On the basis of the assumptions provided this costing broadly estimates spending of £12bn - £15bn per year on home energy efficiency compared to around £2bn per year currently committed in the next Parliament for home energy efficiency, heat decarbonisation and public sector decarbonisation combined.

Other comments (including other Departments consulted):

This costing has been produced by DESNZ.

To be completed by Permanent Secretary's Office
Date costing signed off:

02/02/2024

[If applicable]
Date revised costing signed off: