

November Update: Autumn Statement, Clean Heat Market Mechanism Announcement, and Boiler Upgrade Scheme stats

It's been a whirlwind week in the world of heat pump policy, with a flurry of positive announcements and publications from across Government. Here are the highlights.

Autumn Statement

The Autumn Statement saw welcome announcements. VAT relief will be extended to additional technologies, including water source heat pumps, from February 2024. The Chancellor also confirmed that the Government plans to consult on introducing new permitted development rights to end the blanket restriction on heat pumps being installed 1 metre from a property boundary in England. This is a big win as this infamous planning restriction has been an enduring hassle factor which has hampered installation for years.

More support will be offered for corporate investment in heat pumps, with permanent full expensing, including the 50% first-year allowance for special rate assets. Planning reform will also aim to speed up grid connection.

Clean Heat Market Mechanism

The Department for Energy Security and Net Zero has published its response to the March consultation on the design and delivery of the Clean Heat Market Mechanism (CHMM), confirming it will begin in April 2024. The mechanism which will put an obligation on appliance manufacturers to meet annual heat pump installation targets set as a proportion of their total fossil fuel appliance sales. Now for a more technical breakdown:

- The targets for generating or acquiring heat pump credits for the first two years of the scheme are very achievable for manufacturers; 4% of a manufacturer's fossil fuel boiler sales for Scheme Year 1 and 6% of sales for Scheme Year 2.
- A heat pump credit will be earned upon the installation of a qualifying domestic-scale heat pump via an appropriate certification scheme such as the Microgeneration Certification Scheme (MCS). Hybrid heat pumps will earn 0.5 scheme credits.
- Payment in lieu of missing credits is considerably lower than proposed in the consultation, to be set at £3,000 rather than £5,000.
- An increase to the allowance for parties to carry forward a share of an unmet target to make up in the following scheme year has been given, from the proposed 25% to 35%.
- 10% surplus heat pump credits can be carried forward from one scheme year to the next.

The CHMM will not increase the cost of gas boilers because the scheme is implemented gradually. The first-year target, 4% of overall boiler sales (or 60,000 heat pump installations), is easily achievable meaning manufacturers will not face a deficit of credits, and associated charges. The second-year target, 6% of overall sales, is also achievable. For context, in 2022, 55,000 heat pumps were sold in the UK. Therefore, the CHMM's first year target for 2024/25 requires the industry to increase sales by only 5,000 heat pumps, or by 8% over the 2 years between 2022 and 2024.

International examples support this approach. Between 2011 and 2022, France increased heat pump sales from around 150,000 in 2011 to 620,000 in 2022. That's an increase of 310%, or an average increase of 30% a year.

The Boiler Upgrade Scheme

Today also saw an exciting surge in the number of applications for the UK's flagship heat pump delivery scheme, with a whopping increase of 173% from the previous month. This is largely a response to Government's welcome decision to increase the level of the grant to £7,5000 for air source heat pumps and shows the huge appetite for low carbon heat.

While it may feel that Christmas has come early for those working in the clean heat policy sphere, there is still lots to look out for in the run up to the holidays. Top of our Christmas list is the consultation on the technical specifications for the Future Homes Standard, which has been 'expected imminently' from the Department for Levelling Up, Housing and Communities since Spring. This publication would certainly wrap the year up nicely!