



Pwyllgor Newid Hinsawdd, yr Amgylchedd a Seilwaith /
Climate Change, Environment and Infrastructure Committee
Datgarboneiddio'r sector tai preifat / Decarbonising the private housing sector
DH2P_11
Ymateb gan Cymdeithas Tir a Busnesau Cefn Gwlad / Evidence from Country Land and
Business Association (CLA) Cymru

Consultation Response

Consultation Response on 'Decarbonisation of housing: decarbonising the private housing sector'

**Response from CLA Cymru
22nd August 2022**

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Introduction

The CLA is the membership organisation for owners of land, property and businesses in rural England and Wales. We have 26,000 members who manage around 10 million acres and operate over 250 different types of businesses. 2,600 of these members are in Wales.

Collectively, our members manage around a third of all rural private rented sector (PRS) housing. They provide housing for local people, with respondents to a recent member survey letting nearly a quarter of their homes below market rent, to support local people, especially retired and low-income tenants. Our members also live in rural properties as owner-occupiers often in close proximity to the homes in which they manage for the PRS.

Our members are committed to helping the Government achieve the 2050 net-zero target. They are currently engaging in many practices to reduce their emissions, and many are undertaking 'carbon accounts' to measure and then manage their carbon emissions and assess where they can make improvements. When it comes to their properties however, as many rural properties are of traditional construction (pre-1919) and are off-gas grid, in addition to many being listed or within a conservation area, these homes present the greatest challenge to decarbonise.

The CLA has long been supportive of measures to mitigate climate change and we support regulation on this, but it has to be proportionate, transparent, consistent, and effective, with appropriate Government support.

Current approach to decarbonisation of housing in Wales

1. The Committee has been asked to consider "the current approach to decarbonising housing in the private rented sector and owner-occupied sectors in Wales, including the effectiveness of existing programmes and support for retrofit". The current approach to decarbonisation across the United Kingdom is the implementation of Minimum Energy Efficient Standards (MEES), and England consulting on phasing out the installation of fossil fuel boilers in the PRS¹. The difficulties with using MEES to decarbonise Britain's housing stock are numerous and as this is not a devolved matter the need for collaboration is great.
2. As MEES are implemented using an Energy Performance Certificate (EPC) this presents several challenges for owner-occupiers and landlords of rural properties. The EPC assessment methodology is based on a building of modern construction, despite a fifth of UK buildings being built before 1919. This usually means that EPCs considerably understate the actual thermal efficiency of traditional buildings and overstate their carbon impact. Where this presents a challenge for decarbonisation is that the upgrade measures which will be recommended and encouraged to improve the efficiency and impact of the building will be harmful to the fabric of a traditional building.

¹ <https://www.gov.uk/government/consultations/phasing-out-fossil-fuel-heating-in-homes-off-the-gas-grid>

CLA Recommendation – *SAP and RdSAP measurement and EPC recommendations need substantial amendment, so that all buildings (including traditional buildings) are correctly measured; and EPC recommendations are correctly judged.*

3. MEES are currently assessed on an energy efficiency rating (EER) of an EPC which is based on fuel cost only. This severely disadvantages rural homes which are off-gas grid and could have the unintended consequence of pricing out existing tenants if more-expensive fuel types are installed but may not deliver the required outcome on carbon savings.

CLA Recommendation – *The EPC to keep both the energy efficiency rating (EER) and environmental rating (EIR), but for the minimum energy efficiency standards to be based on the EIR.*

4. In Wales the Nest funding programme for packages of home energy efficiency improvements is intended to help both owner-occupiers and PRS tenants to upgrade their homes to lower energy bills. While any funding package is useful to some households, rural property owners are often excluded from access to this funding. A recent CLA focus group of 15 members found that all these members make the most significant energy upgrades to their properties when the tenants are not in situ, usually when a tenancy is surrendered and before a new one signed. This is because rural properties often require the most invasive works which cannot reasonably be completed with a tenant in occupation. With no tenant in place, landlords are excluded from accessing the Nest funding. The Arbed scheme is aimed towards severely fuel poor, mostly owner-occupied homes, where this should be widened and delivered at a nationwide level rather than regionally in Wales.

CLA Recommendation – *The Nest funding programme be widened to be accessible for landlords looking to upgrade their properties between tenancies. The Arbed scheme should be delivered across all of Wales.*

5. Landlords are often spending upwards of £50,000 upgrading these properties, with some members reporting costs in the region of £300,000 to meet MEES. If no funding is available, the consequence is that the property will be put back on the market at a higher rent, if the market allows, or else the Landlord will be making investments with no realistic return. The consequence of this is that many PRS landlords are exiting the market because of the cost of energy upgrade works. CLA members provide homes at an affordable rent with 24% of all properties rented out by CLA members being classed as 'affordable' (less than 80% of market). If these members put the rents up or exit the market, the affordable housing crisis will be exacerbated.

The effective way to upgrade a home's carbon impact may be to implement a new low-carbon heat type. However, because MEES are measured on a cost impact, there is often an incentive to install a low-cost, high carbon impact heat type such as an oil boiler. Prioritising low-carbon heating is fundamental to decarbonise rural homes which are often not suited to 'fabric first' measures such as wall insulation or double glazing, due to their traditional construction and/or heritage characteristics. The Boiler Upgrade Scheme across England and Wales is a step in the right direction to encourage a transition to low-

carbon heating. Additionally, the VAT deduction on the installation of energy saving materials will also help encourage owner-occupiers and landlords to install the appropriate measures for their property.

The role of sector specific retrofit targets to help drive change

6. Across all tenures, the emphasis should be on supporting property owners to comply rather than enforcing compliance. CLA members want to decarbonise their homes, reduce fuel bills and improve comfort, but often the best way to do this isn't clear with regulations being too complicated.

There must be a change of emphasis by local authorities and National Government and the devolved powers from enforcement to support. With support encouraged rather than compliance and enforcement threatened, a cross sector target is more within reach. This is particularly important for rural landlords, who will find it harder to meet tightened MEES and decarbonisation targets and will benefit from targeted advice and a pragmatic approach.

CLA Recommendation – *All local authorities to have an advisory service which can sign post information and support for all property owners across tenures to encourage working towards retrofit targets.*

Actions the Welsh Government should take to progress a programme of retrofit for these sectors in the short, medium, and long term.

7. In the short-term the most important action for Welsh Government is to work with UK Government to ensure consistency across borders and sectors with targets for decarbonisation. This will also include supporting UK Government with amendments to how MEES are set, including a review of EPCs.

CLA Recommendation – *To work with UK Government to get EPC recommendations to drive action, without perverse or unintended consequences. It will be important to:*

- *Ensure that the benefits of all recommendations have been correctly measured and that the risks of all recommendations have been correctly assessed;*
- *Incorporate into the selection and ordering of recommendations the carbon impacts of the recommendations themselves, and their lifespans. Building owners are increasingly aware that many current recommendations have high and perverse carbon impacts, and that a circular-economy approach is essential;*
- *RdSAP must identify buildings of traditional construction, listed buildings and buildings within a conservation area from the beginning of the assessment process, to ensure that EPCs do not include recommendations which would be inappropriate. This would also enable more effective advice, support and enforcement by local authorities.*
- *These changes will make EPC recommendations much more convincing to landlords, for example pushing draughtproofing (highly effective, with short payback periods and low risk,*

but side lined in current EPCs) up the list, and solid wall insulation (much less effective than SAP suggests, and much riskier) down the list. Once property owners are confident that the recommendations are reliable, they are much more likely to want to implement them.

8. The Boiler Upgrade Scheme will be useful for many households; however, the capital cost is still the largest barrier to installing heat pumps. By installing a district heating system for a small number of rural properties, this can spread the capital cost significantly and is the most efficient and sustainable way to heat a cluster of buildings. The Boiler Upgrade Scheme excludes these systems through its capacity limits.

CLA Recommendation – *Welsh Government should urgently recommend a review of the system size limits for the Boiler Upgrade Scheme to 250kW to allow for small district heating networks to be funded.*

9. While funding is desperately needed, we appreciate that this is perhaps a medium-term measure. There needs to be sufficient incentives and awareness so that homeowners can either upgrade, or plan to upgrade, their properties in advance of being liable for enforcement action. Incentives to upgrade should include lower capital costs, grant funding, and cheaper running costs of low-carbon heat types. These funding streams must be committed to be long-term.

CLA Recommendation – *Support the growth of the low-carbon heating market through support for skills to encourage new entrants which will lower the risk and cost.*

CLA Recommendation – *Provide £10,000 of grant funding to off-grid rural property owners to install low-carbon heat types. As recommended at point 4, extend both the Nest and Arbed funding schemes.*

10. The most cited issue from our members around switching to a low-carbon heat type, of which many are electrified, is the inadequacy of the grid. In the long-term to progress a programme of retrofit works the Welsh Government must ensure the electrical grid is fit for purpose and required upgrades must be centrally funded, rather than rely on private finance.

As the electrical grid is not always fit for purpose, encouraging property owners with a heat pump first approach is not always appropriate.

CLA Recommendation – *Funding should be made available to property owners for a heat pump feasibility assessment. This would incentivise property owners to install a heat pump early but keep the flexibility for homeowners to choose which heating type is best for their property and who lives in it.*

The key challenges of delivering a programme of retrofit within these sectors, including financial, practical and behavioural, and action required from the Welsh Government (and its partners) to overcome them.

11. Some of the key challenges with retrofitting owner-occupier and private rented sector properties have already been mentioned in this response including difficulties with EPCs, inaccessibility of funding, and the capacity of the electrical grid for electrified heating. We have recommended actions which could overcome these issues. The ways to overcome these challenges are throughout the document as 'CLA Recommendations'.
12. The behavioural challenge can be overcome by ensuring that the system is simple to follow and works for all property owners. One of the great barriers to behavioural changes is that property owners are discouraged from making upgrades to decarbonise on an EPC. Or they are willing to make them, but the consequence of doing so is higher running costs for them or their tenants. The practical issue which causes this is that EPCs are currently used as a tool to tackle both fuel poverty and carbon emissions, because of this, policies often try and decarbonise as a way to reduce fuel poverty.

CLA Recommendation – *Any policies to decarbonise housing stock should concentrate on reducing carbon emissions. Fuel poverty should be addressed through better-targeted and more appropriate policies.*

How the right balance can be struck between influencing/incentivising homeowners and private sector landlords to retrofit their properties and regulating to increase standards to drive progress.

13. As stated earlier the emphasis should be on supporting property owners to comply rather than enforcing compliance. Guidance must be improved so that it is consistently applied by professionals, building owners and local authorities. There should be a focus on getting the regulation right, and then on support, rather than punishment. Only if absolutely necessary and as a last resort, fines should be set in the context of the profitability of the residential letting, or in the context of the value of the improvement works not undertaken (in the case of owner-occupation).

How effective is the Welsh Government in influencing decision on reserved matters to support decarbonisation of these sectors?

14. While minimum energy efficiency standards are set by UK Government, the policy routes to achieve these, such as the phasing out of fossil fuels boilers are not reserved. This can cause confusion for property owners, particularly who may own property in both England and Wales. Additionally, funding schemes are specific to the devolved nations; while this may work well administratively it can mean that schemes such as Nest are more narrowly available, meaning there are more applicants to larger schemes which may then be oversubscribed, ultimately helping fewer property owners upgrade.

CLA Recommendation – *Welsh Government and UK Government should look to work collaboratively on all funding schemes and incentives for energy upgrade measures to ensure ways to comply are better understood.*