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Decarbonisation of housing: decarbonising the private housing sector

Introduction

- 1 Given our functions, it would not be appropriate for us to comment on all aspects of the Committee's Terms of Reference for this consultation, or the relative priority focus areas. However, we have commented below on some specific matters arising from our audit work that are relevant to the Committee's inquiry on decarbonising the private housing sector. We should be happy to discuss our previous work with the CCEI Committee or its clerking team and researchers if that would be helpful. In particular, we have drawn on the Auditor General's reports on:
 - [Progress in delivering the Welsh Housing Quality Standard](#) – January 2012.
 - [Fuel poverty](#) – October 2019.
 - [The Welsh Government's Warm Homes Programme](#) – November 2021
 - [Public Sector Readiness for Net Zero Carbon by 2030](#) – July 2022
 - [Public Sector Readiness for Net Zero Carbon by 2030: Evidence report](#) – August 2022
- 2 We are also mindful of the conclusions and recommendations of the Equality and Social Justice (ESJ) Committee in its May 2022 report on the [Fuel Poverty and the Warm Homes Programme](#). We note the call from the ESJ Committee for the next Warm Homes Programme to deliver a transition to net zero carbon that is fair, effective, and just, including targeting of those 'left behind' in the private rented sector and 'harder to treat' and older off-grid rural properties. We engaged closely with the ESJ Committee to share learning from our audit work.
- 3 With the Auditor General having committed to a longer-term programme of work considering how Wales is responding to the climate change challenge, we will be interested to see the outcome from the Committee's inquiry. The Welsh Government's ambitions around the supply of affordable housing and new-build

standards are also relevant, and we are currently considering the potential scope of some audit work on affordable housing.

Our recent 'calls for action' on public sector readiness for net zero carbon by 2030

- 4 The first of our two reports on public sector readiness for net zero carbon by 2030 set out five 'calls for action' for organisations to tackle the common barriers to decarbonisation. Although framed in the context of the collective ambition for a net zero public sector by 2030, we consider that the calls for action and the broader issues and challenges raised by our reports are relevant to the Welsh Government and the wider public sector in various contexts, including efforts to decarbonise private sector housing. The five calls for action are:
- Strengthen your leadership and demonstrate your collective responsibility through effective collaboration.
 - Clarify your strategic direction and increase your pace of implementation.
 - Get to grips with the finances you need.
 - Know your skills gaps and increase your capacity.
 - Improve data quality and monitoring to support your decision making.

Policy alignment and the balance of investment across different tenures

- 5 We have responded recently to the Welsh Government's consultation in relation to the [Welsh Housing Quality Standard](#). While the focus of the WHQS is, at present, on social housing, we note that the Welsh Government has stated in the consultation document that, "What is learnt upgrading the 230,000 social homes in Wales will drive how we as a nation approach the making of the 1.2 million privately rented or owner-occupied homes in Wales net zero carbon. The challenge of retrofitting the existing housing stock is vast. Every single house has a different history, therefore our mission is to reduce carbon emissions home by home, and street by street."
- 6 With the Welsh Government also having consulted on the future of the [Warm Homes Programme](#) alongside the ESJ Committee inquiry, and as responses to the consultation and the ESJ Committee report emerge, there are opportunities to consider whether there is clear policy alignment in the way in which plans relating to properties of different tenures are being progressed. There is also the opportunity to consider how public funding is being prioritised across different tenures to maximise value for money (economy, efficiency and effectiveness in meeting policy goals).

- 7 Our reports on fuel poverty and on the Warm Homes Programme both highlighted the tensions inherent in energy efficiency programmes, in particular some of the competing social justice and carbon reduction goals. Specifically, fuel poor households are generally less likely to be profligate energy users. So, while targeting improvements in domestic energy efficiency towards fuel-poor households has a clear social justice rationale, it is not necessarily the most cost-effective approach to carbon reduction. We set out there may be greater scope to reduce emissions from energy-wasting affluent homes.
- 8 One of the key tensions is around the use of heating sources, such as air source heat pumps, as an alternative to gas boilers. We addressed this issue in response to the Welsh Government's WHQS consultation, where we also highlighted questions around policy alignment between housing of different tenures. We outline these points below.
- 9 The WHQS consultation says that: "Landlords must have assessed the work programmes necessary to achieve net zero carbon emissions for their housing stock as a whole, to align with the Net Zero Wales Plan. In order for Landlords to achieve this element, they should plan to stop installing fossil fuelled boilers from 2026 onwards". We do not have a view on whether stopping fitting gas boilers from 2026 onwards is the right policy. However, we noted that it risks being inconsistent with the approach being proposed under the Welsh Government's consultation on the next iteration of the Warm Homes Programme.
- 10 The Warm Homes consultation states: "Despite the urgency of the climate emergency, we cannot push more people in fuel poverty as a consequence of our focus on repairing building fabric and avoiding fossil fuelled solutions. For example, for households living with a broken or inefficient heating system, installing an efficient gas boiler will provide a carbon saving, improve comfort and should help reduce their fuel bills. There are many homes where for time and money reasons, moving to other kinds of heating now would defeat the object of tackling fuel poverty. Electricity generation needs to be cleaner and cheaper before all householders transfer to electric heating. Our expectation is low carbon heating alternatives, such as heat pumps, will become significantly cheaper and more accessible by the end of the decade. The opportune moment to replace a gas boiler in some cases, therefore, may arise a few years from now when there is a stronger supply chain and when costs have come down. Efficient and hydrogen ready gas boilers may continue to be the appropriate net zero response for fuel poverty for some time until a suitable alternative is available."
- 11 There therefore seems to be a different approach to replacing gas boilers being proposed for social housing compared to publicly funded energy efficiency improvements in the private sector. The arguments put over in the Warm Homes consultation that installing alternative measures might exacerbate, rather than alleviate, fuel poverty would seem to also apply to those living in social housing as

those in private accommodation. Similarly, the availability of alternative measures would seem to apply equally across the different sectors. Indeed, the WHQS consultation seems to recognise this tension in relation to temporary 'failures', where it states: "Situation: The windows, doors and loft insulation have been upgraded but the home is still heated by a gas boiler. Other options available to meet the element in full are still overly expensive per unit, not supported by the energy network (hydrogen) or installation of them would force the tenant into fuel poverty (heat pump). Correct assessment: Temporary Fail – Currently cost prohibitive."

- 12 An asymmetric approach may, however, be justifiable on the grounds of differences in the way works may be financed, managed and monitored, with underlying differences in scale. It is possible that local authority works may be easier to finance at lower cost because of access to public borrowing than is the case for private landlords and owner-occupiers. Similarly, it may be easier for a local authority to develop and maintain expertise in managing such works than it is for a private landlord or owner-occupier.
- 13 In summary, we suggest it would be helpful to explore whether the Welsh Government has a justifiable and coherent approach to the replacement of gas boilers across the various energy efficiency programmes.

Monitoring and reporting on progress

- 14 In our response to the WHQS consultation, we referenced our 2012 report. Reflecting on the original Standard, we had concluded that the Welsh Government had not acted swiftly enough following the origins of the Standard in 2002 to support and monitor progress and had not put an effective framework in place to demonstrate value for money from the significant investment in work to achieve the Standard. The lessons from those audit findings hold true for any future arrangements targeted at the private housing sector. These include the importance of the Welsh Government having a clear idea of the baseline position and likely cost implications of its policy aims before establishing realistic targets for their achievement.
- 15 As we highlighted in our more recent report on the Warm Homes Programme, the Welsh Government also needs to tighten its contract management arrangements, quality assurance and more general performance monitoring for any future schemes involving third party contractors.
- 16 Our work on public sector readiness for net zero carbon emissions also emphasised the importance of getting the data right to support decision-making and monitoring of progress in future. One of the issues highlighted in the report concerned the reporting of emissions from procurement and the supply chain. In response to the WHQS consultation, we noted that the Welsh Government has

indicated that guidance is under development to establish reporting arrangements around offsetting carbon emissions under the 'community carbon benefits' approach. While the Standard deals with the energy efficiency rating of homes, we could not see any explicit consideration within the consultation document of the carbon impact of action taken in maintaining/upgrading properties, for example through different choices that might be made about the materials used and their embodied carbon. Such issues are relevant to choices around the delivery of any future programmes in the private housing sector and the way in which the impact of these programmes is monitored and assessed.

The viability of area-based approaches

- 17 Our report on the Warm Homes Programme recommended that the Welsh Government should review whether the area-based delivery approach used by the Arbed scheme remains viable or needs significant amending given under-delivery. The challenges we identified in our report are relevant to the delivery of any future schemes.
- 18 In [its response](#) to the issues raised by our report, which the ESJ Committee considered as part of its inquiry, the Welsh Government acknowledged that "... the dispersal of fuel-poor homes proved problematic for an area-based approach. This was due in part to overreliance on local authority local knowledge and outdated Energy Performance Certificates which are not mandated to be updated when improvement works have been undertaken to the worst performing homes. The viability of area-based schemes is being explored as part of the consultation on the next iteration of the Warm Homes Programme."