

Pwyllgor Newid Hinsawdd, yr Amgylchedd a Seilwaith /
Climate Change, Environment and Infrastructure Committee
Datgarboneiddio'r sector tai preifat / Decarbonising the private housing sector
DH2P_25
Ymateb gan Yr Ymddiriedolaeth Arbed Ynni / Evidence from Energy Saving Trust

Energy Saving Trust response to the Senedd Climate Change, Environment, and Infrastructure Committee's Inquiry: "Decarbonisation of housing: decarbonising the private housing sector"

The current approach to decarbonising housing in the private rented and owner occupied sectors in Wales, including the effectiveness of existing programmes and support for retrofit;

Current support programmes have helped to make progress in terms of private tenure housing decarbonisation. The most recent Nest annual report¹ shows that 20.6% of households supported with energy efficient home improvement packages were in privately-rented accommodation with the remaining 79.4% of home improvement packages being distributed to owner occupied homes. Private rented accommodation makes up 16% of the overall housing stock in Wales while owner occupied properties account for around 70% of overall Welsh housing. This shows that the Nest scheme has been successful in reaching private rented homes, despite the challenge of the 'split incentive'.

The primary focus of the Warm Homes Programme when it was first launched was to reduce fuel poverty and as a result, efficient, lower-cost gas boilers have made up a significant number of the measures installed. This has had the effect of lifting many households out of fuel poverty and has reduced emissions to a degree but is not a long term solution to the challenge of decarbonisation. The Welsh Government recognises this and we are confident that the next iteration of the Warm Homes Programme will refocus efforts on decarbonisation alongside fuel poverty alleviation with both challenges addressed simultaneously.

We have previously suggested that private tenure households must be engaged with more deeply with a concerted awareness-raising campaign, enhanced advice provision and access to low cost financing for all households, with the ultimate aim of creating a "one-stop-shop" for home energy. We set out this position in greater detail in our response² to the Welsh Government's recent consultation on the future of the Warm Homes Programme.

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

We support several of the recommendations expressed in the recently published Tyfu Tai Cymru report³ on decarbonising Wales' private rented sector and believe many of these recommendations also apply to the owner-occupied sector.

Short term

Maximising existing support

As an immediate first step, the Welsh Government should ensure that as many people as possible are aware of and take the opportunity to access the support programmes already available. We know from our experience helping to deliver the Nest scheme that the number of callers and households supported in a given year strongly correlates with the level of advertising undertaken. The Welsh Government should look to raise the public's awareness of the Nest scheme and other programmes. We understand an advertising and awareness campaign is planned for the autumn and winter.

¹ <https://nest.gov.wales/wp-content/uploads/2022/05/Nest-Annual-Report-20-21-English-FINAL-2.pdf>

² <https://energysavingtrust.org.uk/report/our-response-to-welsh-governments-consultation-on-the-future-version-of-the-warm-homes-programme/>

³ <https://cih.org/media/zbccclbu/0510-ttc-decarbonising-wales-private-rented-sector-v5.pdf>

Alongside this, Welsh Government must swiftly publish their response to the recent consultation on the future of the Warm Homes Programme and begin implementing these plans. We hope that the next iteration of the Warm Homes Programme will be ambitious enough to meet the challenges we face in terms of the energy crisis and decarbonisation. Lessons learnt through the Optimised Retrofit Programme, and more generally from improvements made in the social housing sector, must be better integrated into support programmes for private tenure housing.

We understand that the Development Bank of Wales is working on possible retrofit financial instruments that could support private tenure housing in the so-called 'able-to-pay' sector. In the short term, this work must gather pace, with a programme announced by summer 2023.

Medium term

Changes to the Warm Homes Programme

The ongoing energy crisis illustrates why we must move away from our reliance on gas and the global gas market. While previous iterations of the Warm Homes Programme did reduce emissions through fabric energy efficiency measures and the installation of more efficient gas boilers, the new Warm Homes Programme should go further in terms of improved fabric efficiency and the installation of low carbon heating systems. We wrote about the different approaches the Welsh Government could consider in greater detail in our response to their recent consultation. Relatively straightforward, yet effective, changes could include increasing funding caps to allow for both multiple fabric measures and heating systems to be installed and allowing households to dip into the funding pot more than once so that sequential improvements can be made. While we await the Welsh Government's response to the recent Warm Homes Programme consultation, which we hope will see the level of support increased and the number of eligible households broadened to reflect the current crisis, we must ensure that the current iteration of the scheme operates as effectively as possible with all households encouraged to reach out for advice and support.

Leveraging in a greater share of UK funding

There are several UK Government funding programmes currently in operation and the Welsh Government and other stakeholders must work to leverage as much of this funding into Wales as possible and ensure it works alongside Welsh Government support packages. The obvious medium-term example is ECO4 which will see 50% of its funding distributed by local authorities. This provides an opportunity for the Welsh Government to support local authorities in making bids and designing programmes to make sure the money goes as far as possible.

Optimised Retrofit Programme

The Optimised Retrofit Programme (ORP) will soon be entering its second phase and over the next 12-18 months we should look to apply the lessons learnt retrofitting the social housing sector to private tenure housing, utilising the knowledge gained and strengthened supply chains to accelerate retrofit across tenure types. We hope that the original intention of the ORP is realised – that social landlords begin to engage with private tenure housing in their areas and include them in future projects.

Preparation for retrofit uplift – skills/training

There remain significant skills gaps across much of Wales when it comes to energy efficiency and low carbon heat installation. Investing now, ahead of demand, must be a priority. We hope that a focus on net zero aligned skills and training for both new sector entrants and those wishing to retrain feature prominently in the Welsh Government's Skills Strategy when it is published.

Long term

Increased renewable deployment (incl. grid strengthening) – wave and tidal, storage, green hydrogen for industry

In the long term, we will only achieve energy security and net zero by ending our reliance on fossil fuels. To achieve this, we have to invest in renewable technologies at all scales, including energy storage and distribution infrastructure. While the lion's share of our 2050 electricity system will likely be made up of wind and solar with dispatchable energy supplied by large scale storage and demand side response, there will be a need for a range of renewable technologies. Wales is well-placed to be a leader in many of these technologies, including wave and tidal and green hydrogen for industrial processes. We should begin investing now in the grid of the future and the technologies that will power it. This is not just a task for the Welsh Government but also the UK Government and a host of public and private sector stakeholders.

Skills

The work needed to build supply chains and a suitably skilled workforce will have to continue throughout this decade and beyond but offers the opportunity to create a more prosperous Wales.

A building passport for every home in Wales

We have recently contributed to a sub-group of the Welsh Government's Independent Implementation Group on Residential Decarbonisation chaired by Chris Jofeh, which focused on addressing the challenges of decarbonising private tenure housing. One of the key areas of interest has been a proposal to provide every home in Wales with a digital building renovation passport. This would go further than the current EPC in several key ways. It would be an ever-changing digital document which would remain tied to the home and would set out the decarbonisation pathway of the individual property with energy and cost savings, as well as the estimated cost of measures, regularly updated based on similar properties in an area. Crucially, the outputs and recommendations need to be jargon-free and easily understandable. At present, the Welsh Government and other stakeholders (e.g. private lenders, the supply chain etc) can only estimate the scale of the challenge. Many households in Wales do not have an EPC and for those that do these can be several years old and do not provide the granular information needed to plan a retrofit programme on the scale required.

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

Finance

Upfront finance remains a key barrier for the majority of households. For the most vulnerable and those on low incomes, an expanded Warm Homes Programme must be a priority.

The amount of UK-level funding coming to Wales must be maximised. ECO4 will see a doubling of available funds with 50% distributed by local authorities. We understand the Welsh Government is in talks with BEIS regarding the potential for Wales' share of these funds to be distributed by the Welsh Government and how these funds can be combined with other funding sources. If this central administration is not possible local authorities must be given the support needed to access ECO effectively. In Scotland, an ECO manager has helped to increase the share of funds going to Scotland (12% of ECO3 measures to date have gone to Scotland versus 5% to Wales) by working with local authorities to support their ECO bids. A similar approach could be effective in Wales. We understand the Welsh Government hope to play a role in distributing the flex element of ECO4 in Wales which would also help to ensure good take up across the country.

Last year's Net Zero Wales plan appeared to rule out funding support for the so-called 'able to pay' market stating that for "the better off" the expectation is that "the market [will] provide solutions to enable retrofit of homes". We agree that in time private sector financing, such as green mortgages or Property Assessed Clean Energy (PACE) on-bill financing, will meet a significant share of retrofit funding. The issue is that currently, private financing is not yet widely available, with a clear policy on private financing yet to be published by the UK Government. In the interim, most households in Wales cannot meet the upfront costs needed to undertake energy efficiency and low carbon heat retrofit. In the near-term, and particularly now that household finances are being squeezed at the same time as private lenders are increasing the cost of borrowing, our view is that there is a role for the Welsh Government in supporting a wider group of households – provided this does not come at the detriment of supporting the most vulnerable. We recently responded to the Welsh Government's Warm Home Programme consultation where we argued that an expanded programme that supported self-funding households would be beneficial. We argued that ensuring a generous portion of funding remained ringfenced for vulnerable households would be essential but that the consumer-facing elements of the scheme would be the same for everyone who engaged with the scheme. Subsequent triaging would determine whether fully funded, blended grant and loan or zero-interest loan support would be the most appropriate for a given household. An expanded programme might not have to be onerously expensive if zero interest long term loans are offered as the funding source with a tapered grant dependent on household circumstances.

We understand the Development Bank of Wales is undertaking some early work on financing retrofit programmes which is certainly welcome but this must become a priority. Similarly, the UK Infrastructure Bank has been given a steer by the Treasury to facilitate funding of domestic retrofit and Wales should argue strongly for its fair share of available support.

We should also consider more innovative longer term funding opportunities. Wales could consider establishing a wealth fund from the benefits of renewable energy projects. There are several well-known wealth funds (e.g. Norway) and a similar model could be adapted to a contemporary Welsh context to help share the benefits of our abundant renewable energy resources. A

scheme could be designed whereby the Welsh Government (or potentially the Development Bank of Wales) would subsidise the rollout of renewable energy projects in return for a share of the project's profits. These profits would in turn be placed into a wealth fund which would invest in environmentally and socially conscious projects seeking modest returns. This fund could be used to finance energy efficiency programmes for self-funders using blended grants and low-cost loans. A similar scheme was recommended as part of the Institute of Welsh Affairs' 'Renewing the Focus: Re-energising Wales Two Years On' report.

Practical

There remain significant skills gaps across much of Wales when it comes to energy efficiency and low carbon heat installation. Investing now, ahead of demand, has to be a priority. We hope that a focus on net zero-aligned skills and training for both new sector entrants and those wishing to retrain feature prominently in the Welsh Government's Skills Strategy when it is published.

Engaging with private sector landlords and ensuring that they improve the properties they own to make them more efficient and aligned with net zero will prove challenging. Well-signposted MEES and other regulations, enforced by sufficiently resourced local authorities, and overseen by Rent Smart Wales will help. Many landlords will also need to be incentivised and offered funding support.

In Scotland interest-free loans of up to £38,500 are available to private sector landlords for a combination of energy efficiency (up to £15,000), renewable generation (up to £17,500) and energy storage (up to £8,000). To qualify, properties and landlords must be registered and properties cannot be second homes or holiday homes and must be currently or soon to be occupied by tenants. If the landlord has five properties or fewer the loan is interest free. If they have six or more properties in their portfolio, the loan is subject to interest at 3.5% APR. The repayment period can be up to a maximum of 8 years. Central to the scheme is the delivery of impartial advice. Applicants must contact Home Energy Scotland personally to get impartial advice about their home and engage in a decision-making process about how best to improve it. An EPC assessment must also be produced recommending the chosen measures.

Although on average each home is sold every 12 years many people remain in the same home for much, if not all, of their lives, often paying off their mortgage along the way. This removes many of the 'moments of change' and avenues of engagement that we might otherwise take advantage of to undertake EPC or retrofit assessments and install measures. Engaging these households through trusted intermediaries and explaining the benefits of taking action in terms of comfort and fuel savings (as well as appealing to many peoples' desires to do their part for the climate) will be needed to engage this segment of the housing market.

Behavioural/Advice

To lower costs and improve the energy efficiency of homes the role of an impartial advice and support service from a trusted source will be important. We cannot reach net zero without behaviour change and so considering consumer behaviour must be a priority. We believe that a dedicated advice service, supported by an ambitious awareness raising and information campaign and post-installation guidance, will be essential.

In our view, an advice service should, as a minimum, offer additional advice on low carbon heating options. The Nest advice line regularly receives calls asking for advice regarding the installation of heat pumps and other low carbon heating options. An impartial service will help consumers have confidence in the choices they need to make around additional energy efficiency measures and low carbon heat which will help lower costs in addition to lowering carbon emissions.

An impartial advice service would:

- Provide user-friendly, practical advice available through multiple channels which is responsive to people's needs
- Provide tailored and specific advice to address the unique issues that people face as a result of their circumstances and property characteristics and help them understand the available options
- Proactively engage people with the benefits of decarbonising their homes and moving to low carbon heat
- Help people to recognise how taking action will benefit them personally
- Refer people to installers of measures, UK and Welsh Government schemes (eg ECO)
- Refer people into wider support services and the priority service register.
- Provide reassurance and support throughout the process and advise and help people making changes to their homes

- Help people to understand what support is available at all stages of the process and how to access this, for instance, grants and funding schemes.
- Provide advice on what happens if anything goes wrong and how they can get redress.

The direction many of our neighbours are taking is towards a more holistic one-stop-shop-style approach, with both Northern Ireland and the Republic of Ireland recently announcing plans to either begin working towards the creation of a one-stop-shop network or their continued rollout.

This follows the success of Home Energy Scotland which employs many features of a one-stop-shop approach to deliver more comprehensive, tailored and bespoke support to households of all tenures. This has helped to achieve strong results in terms of reducing household running costs and carbon emissions. The lifetime carbon saved by customers using the wider Scottish network of support in 2019-20 is estimated to be more than 382,000 tonnes of CO₂. Total lifetime energy bill savings from the network since its inception are estimated to be well over a billion pounds⁴.

Providing a wider range of services from one point of access and integrating support services would result in a better customer journey. A wrap around service that takes a customer from initial call or engagement right the way through to post-install quality verification and advice on the best way to use their system would help to support the most vulnerable. Especially if the service can engage contractors and offer enabling works to the household.

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

Initially, the barriers described elsewhere should be addressed and both homeowners and landlords should be incentivised to act with advice and funding support made available – ideally moving towards a one-stop-shop style approach as our neighbours in Scotland, Northern Ireland and the Republic of Ireland are doing.

To help drive the level of change required it will also be necessary to set out a timeline of action with milestones that must be met with a final EPC (or equivalent) target for all tenures to achieve. This includes Minimum Energy Efficiency Standards (MEES) for all tenures. These should be stricter for privately rented accommodation and should be assessed at either change of tenancy or sale. The MEES set by UK Government, which apply in Wales, are designed to offer a strong incentive to landlords to improve the efficiency of their properties over time. These legal requirements must be properly enforced. Rent Smart Wales is well positioned to oversee this ratcheting of standards alongside local authorities but must be supported to do so. We understand that three local authorities in Wales have been given funding from BEIS to set up teams tasked with enforcing MEES but that elsewhere enforcement teams are less well-funded and are taking different approaches from one another. Targeted outreach to landlords from central and local government should also be undertaken. We understand that in one of the local authorities benefiting from having a dedicated MEES team, prominent advertising has been published signalling the MEES changes and the team intend to send a series of letters to private landlords informing them of the changes and offering assistance.

This well-advertised and clear timeline is needed to drive awareness, give homeowners and landlords a clear direction of travel and allow the supply chain to invest in upskilling and expanding.

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

⁴ See: <https://energysavingtrust.org.uk/report-update-home-energy-programmes-delivered-by-energy-saving-trust-in-scotland/>

The reality is that none of the devolved governments in the UK have the powers available to them to single-handedly combat the energy crisis or climate change and so should present a united front in calling for immediate and continued support from the UK Government. The impact on households will be significant, the depth of this crisis will push many otherwise comfortable families into fuel poverty and the forecasted £5,000+ price cap expected in 2023 will be simply unaffordable for millions of households. Already the Welsh Government estimate that 45% of households in Wales are in fuel poverty.

In recent months we have seen Welsh Government Ministers write several letters to UK Government Secretaries of State expressing the Welsh Government's deep concern about the increase in domestic energy prices and urging the UK Government to provide additional support. There is limited evidence to suggest the calls are being heeded by the UK Government. However, we understand that behind the scenes there is a more collaborative approach taken between senior civil servants of each government on specific reserved issues – something we welcome and is more important now than ever.

Reserved or partially-reserved matters Welsh Government must look to influence

Minimum Energy Efficiency Standards

The UK Government have been slow to confirm their commitment to implementing more stringent Minimum Energy Efficiency Standards (MEES). Ratcheting up MEES over time until all tenures must have achieved an EPC C or equivalent is likely to be necessary to drive the scale of change required. We have seen from the ICE vehicle phaseout that setting a firm deadline well in advance drives the market – a recent survey has shown that 54% of drivers plan to switch to an EV within the next five years. Achieving similar market transformation when it comes to retrofit and low carbon heating will also require a clear pathway (and a host of additional enabling factors). The Welsh Government must continue to push the UK Government to set out its MEES pathway. The Welsh Government should also consider what options it has available to set its own minimum standards as the Scottish Government already does.

ECO (and other support scheme) distribution

The Welsh Government must continue to engage with the UK Government regarding the distribution of retrofit support funds such as ECO and the Boiler Upgrade Scheme and work to leverage as much of this funding into Wales as possible. Ideally, these UK funding streams could be combined with Welsh Government programmes in a more seamless way.

Balance of energy levies

At present, the per unit cost of electricity is kept artificially high compared to gas because of the balance of levies between the two energy sources. Last year, 2% of the price of gas came from levies whereas environmental and social levies on electricity accounted for 23% of electricity bills. The rapid increase in wholesale energy has now dramatically changed this picture so that now environmental and social levies account for around 5% of energy bills, when prices begin to return to more normal levels the relative significance of these levies, and the imbalance between gas and electricity levies will return to the fore. We have been calling, along with other organisations, for most of these levies to be moved into general taxation, creating a more progressive funding structure and immediately reducing the running costs of heat pumps and other electrical heating solutions. The UK Government committed to rebalancing levy costs in their Heat and Buildings Strategy and we are expecting a consultation on these proposals in the coming months. The Welsh Government should continue to push for these levies to be rebalanced and for many of these costs to be placed into general taxation.

Investment in the grid

In the context of the current crisis, the Welsh and UK Governments need to raise the pace and scale of efforts to reduce energy use and decarbonise to address the energy and climate crises and promote energy security for the long term. There are several regions in Wales with relatively poor grid connectivity, particularly in mid-Wales, and the Welsh Government should continue to engage with the UK Government, Ofgem, the National Grid and other stakeholders to improve the grid in Wales to unlock the renewable energy potential we have here.