

Pwyllgor Newid Hinsawdd, yr Amgylchedd a Seilwaith /
Climate Change, Environment and Infrastructure Committee
Datgarboneiddio'r sector tai preifat / Decarbonising the private housing sector
DH2P_33
Ymateb gan Banc Datblygu Cymru / Evidence from Development Bank of Wales

Decarbonisation of housing: decarbonising the private housing sector – evidence from the Development Bank of Wales.

September 2022

1. Introduction

The role of the Development Bank of Wales is to unlock potential in the Welsh economy by increasing the supply and accessibility of sustainable, effective finance. We invest over £100 million per annum into the Welsh economy and have been active in property development, supporting SME developers since 2013. Since our launch in 2017, it has been our fastest growing area of activity, resulting in investment of £159m and support for over 1,300 new homes. In 2021/22, property investment accounted for 40% of funding delivered by the Development Bank.

One of our core strategic objectives for the next five years is to promote and advance a green future in Wales including through the development of innovative financial instruments. The Development Bank is currently considering six potential areas of support aimed at decarbonisation in direct alignment with the Welsh Government's Net Zero Plan ambitions. One of three prioritised, immediate term, projects within this programme of work is the development of an accessible funding offer in support of retrofit activity for owner occupier and private sector landlords.

Our response to this consultation is focused on the role public funding can play in the decarbonisation of the housing sector and the importance in facilitating action using the range of mechanisms available. The response looks at the terms of reference - points 2 - 6.

In summary, the key areas where the Development Bank of Wales can support and have impact at this stage are:

- Continued development of a funding proposal, using outputs from a market testing collaboration with Nesta to establish a targeted pilot fund in support of retrofit in the private housing sector in 2022/23.
- Our ability to provide support for the Welsh Government as required, to scope options to establish a centralised energy service in Wales.

- Our ability to support collaboration across key stakeholders in Wales, including Local Authorities, with the aim of building packages of funding support and maximise the efficiency of public funds.
- Continued engagement with partners across the UK to ensure learnings and best practice are embedded in action in Wales.

2. The role of sector specific retrofit targets to help drive change.

- 2.1** Wales has pledged to significantly decarbonise housing stock by 2030 to support the 2050 Net Zero target. Residential housing accounts for 10% of emissions in Wales. Wales has some of the oldest and least efficient housing in Western Europe as 13% Welsh housing stock were built in the last 30 years.¹ Age and emission sources within the market has resulted in a broad set of retrofit requirements to achieve Net Zero.
- 2.2** An important aspect of development in this area, therefore, is recognition that a “one size fits all” approach will not work and therefore we welcome a sector specific approach to targeting change.
- 2.3** Learnings from the Welsh Government’s Optimised RetroFit Programme will be important in the development of action in the owner occupier and private rented sectors, yet the differences must also be recognised. For example, the differing starting quality of the housing stock compared to that of social housing.
- 2.4** We must also consider the different customer base and personas within the wide homeowner market, ranging from those likely to act regardless of support available and those that may need greater levels of support particularly through energy advice and greater incentivisation.
- 2.5** A targeted delivery approach is also required to gain momentum. This may be by region/Unitary Authority, or through analysis of areas with a high density of target EPC ratings. National roll out from the beginning may dilute impact rather than grow critical mass.
- 2.6** In support of this the Development Bank has collaborated with Nesta to undertake a project looking specifically at the range of potential user groups. This work has been enhanced by a behavioural insights study exploring tendencies and sentiments in different funding offers and their perceived benefits. This will help understand behaviours such as current blockers to action and potential motivators such as linking to bigger renovation works where installation upheaval is less of an issue, as an example.

¹ Financing Wales’ Housing Decarbonisation, New Economics Foundation, 2021. Available here: <https://neweconomics.org/uploads/files/Financing-Wales-Housing-Decarbonisation.pdf>

Responses from a sample of 8,000 homeowners, 2,000 of which are Welsh, are currently being analysed and further feedback can be given at the Committee's evidence session in October.

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

3.1 Short-term priorities - In conjunction with the Welsh Government, the Development Bank of Wales is focusing short-term action on the development and launch of pilot funding offers which can test and subsequently adjust to evolving market needs. The complex needs of addressing decarbonisation retrofit require a simplified approach. Solving all the issues in one is not feasible and therefore we consider that an incremental build that has the capacity to test and learn lessons be the first stage of the process. Work in this area is advancing well through the collaboration with Nesta and ongoing discussions with the Welsh Government on funding requirements. Shaping a hybrid funding offer matching an element of grant with repayable finance will be presented to the Welsh Government in the form of a Business Case in the coming months aligned with their desire to extend Optimised RetroFit into these sectors.

3.2 Medium-term priorities - To create an engaged and holistic offer in Wales, a centralised energy advisory service is a key component. This will require careful remit build, structuring, procurement, ownership, and delivery planning which ultimately suggests a medium-term timeline. However, to achieve this, action needs to begin immediately. The Development Bank can support the development and coordination of this.

3.3 Long-term priorities - Delivery of a legislative roadmap that strengthens abilities to impact on Net Zero goals in a just way and provides milestones to focus action.

4. 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.

4.1 There are a number of challenges acting as barriers to action. Particularly in the context of efficient and prudent use of public funds it is vital that any offer of support is robust in its impact and outcomes. The currently fragmented support network needs to become more joined up linking the elements of advice, skills, funding, and delivery. For customers, an efficient and understandable process is essential for unlocking demand.

4.2 Advice service - One of the key requirements in delivering a comprehensive retrofit programme is the availability of consistent, quality advice to support individuals navigate the complexities of the technologies and installation requirements. Not knowing where to start is a major but answerable problem. Scotland operate their Home Energy Service- run by Energy

Savings Trust- which provides individuals with a central resource that supports turning enquiry and interest into action. If Wales is to effectively impact in this area, then it is vital that a central advice resource is formed. In the current environment and stage of maturity of the market in this area in Wales, it would be appropriate for this to be led by the Welsh Government.

This however has a number of constraints such as funding requirements and resource needs. While a cost, it will be integral to generating action in this space. Some of the cited issues by individuals is the understanding and trust in the technologies they install. Having a government 'stamp' on this will help alleviate concerns. To support this a clear and understandable approach to the Welsh Government's policy in this area is needed setting out eligible activity. For this market (private homeowners and landlords) it is proposed that this removes any support for enhancing existing fossil fuel sourced energy performance and focuses on whole of house decarbonisation, generating personalised plans for homeowners mapping their route from fabric first through to energy generation. We support the work underway in developing a building remediation passport.

- 4.3 Installation and supply chain-** Supporting supply chain development through skills and training is a practical measure that needs to be addressed to build expertise in Wales. Alongside this the Development Bank of Wales can support micro businesses in starting up or pivoting existing trade businesses to build capacity as a provider of green installations. Schemes such as the Microgeneration Certification Scheme are vital for quality assurance risk mitigation. Consumer protections need to be a key consideration.

The Path to a Net Zero Wales, 2020 Advice Report by the Climate Change committee noted that the 2020s is a period of scaling up. Wales must build supply chains and new markets for low-carbon consumer offerings so that these can scale from being niche offerings to market standard.

- 4.4 Measuring impact-** In the delivery of public funding it is important that impact and outcomes can be accurately measured. Homeowners need to have access to ongoing support, post installation, to ensure they are maximising use of technology and consideration needs to be made into how data collection systems can be built in as part of the offer- whether an intelligent energy system device may be a term of the funding.
- 4.5 Cost of living crisis-** In a stable market environment the debt burden and long-term payback presents a deterrent. With the current cost of living and energy crisis this creates, for many, a complete blocker to investment in this area. For those that can still commit to decarbonisation enhancements this is likely to be at the wealthier end of the able to pay market. If these provide the first movers this should not be seen as a negative.

It is important also, that the offer is responsive to the prevailing market conditions. While some may be able to install decarbonisation focused upgrades at this time, for the vast majority energy efficiency is the need. Providing supported access to finance to undertake measures to reduce immediate bills should be an integral part of the early offer.

In addition, a further challenge is presented in the level of support required through public funding. It is vital that opportunities to integrate various forms of finance are explored including Shared Prosperity funding at a regional level for advice or grant elements. The Development Bank can support the Welsh Government in this engagement with Local Authorities.

5. 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.

- 5.1** Until legislation is introduced, the ability to incentivise and motivate action in this sector will be limited. This is in part due to the ‘no need’ to act, particularly where it requires personal expenditure and in part due to the uncertainty on what legislation may be introduced and acting before that is fully understood.

Clearly, this will need to be transitioned, allowing time for property owners to adjust, however the sooner a roadmap on the shape of future legislation is developed the more confidence individuals will have to act and prepare for the future.

- 5.2** In the meantime however, the key lever for influencing and incentivising action will be through the funding offers made accessible to Welsh homeowners. As the cornerstone deliverer for financial instruments for the Welsh Government, the Development Bank is currently assessing the package of support that will suit the needs of the Welsh market. This needs to be considered in direct consideration of the challenges listed in 4 above.

Undoubtedly, even with the use of mechanisms including repayment holidays, payback linked lending, 0% interest and long-term patient capital, there will be a need to catalyse action through the availability of grant finance alongside repayable lending. Particularly at this juncture where action is critical to build momentum, the Welsh Government must recognise the requirement to make available core capital funding as part of the offer. By design, this will be ensured to be the minimum necessary to create viable finance packages ensuring value for money.

- 5.3** Recognising the complexity of the challenge ahead, further solutions will need to be considered to build a range of support. There are a number of intervention archetypes which

could be piloted in the Welsh owner occupier and private rented sector above the proposed hybrid grant/lending model, such as green mortgages or green equity release.

- 5.4** A tipping point should come when costs of technology will fall and meet the rising value of market improvements but this is not going to happen in the short term and therefore supportive finance packages are fundamental to action.
- 5.5** Establishing or aligning with an agreed set of delivery principles will be an important factor in creating an effective and balanced offer. The Green Finance Institute's retrofit finance principles are a good example of this where four delivery components are highlighted as defined use of proceeds (or eligibility), project evaluation and selection (demonstrated energy efficiency), management of proceeds (clear tracking of financial instruments for transparency) and reporting (real time and verified).
- 5.6** As part of the Development Bank's ongoing market analysis it is important to continue to engage with bodies such as the UK Infrastructure Bank, Carbon Trust, and the Green Finance Institute as well as continue to note best practice learnings from schemes in other regions for the benefit of Wales - such as the successful and well-established scheme run by KfW in Germany. This also clearly includes close engagement with the Welsh Government on the learnings and outcomes from the Optimised RetroFit Programme.

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

- 6.1** One of the schemes that was identified as part of our exploration into learnings from other regions was the Property Assessed Clean Energy model or PACE. This provides an innovative model whereby property enhancements are linked to the property rather than the individual. The repayment obligation therefore will transfer with the property ownership addressing a key barrier in that owners are reluctant to make improvements if they do not believe they will be in the property long enough to benefit from the savings post payback.

The issue however is the requirement to channel the repayment through property tax routes, the most obvious being council tax. This therefore requires legislative allowances and devolved powers to create a mechanism to achieve this, as well as local government resource to operate.

The Development Bank has linked with the Green Finance Institute on their work in this area and will continue to do so as they trial a project with the Greater Manchester Combined Authority as a test case.

For this to become a potential working solution for Wales however it is important that the areas of government that are able to, consider and influence the necessary legislative

considerations and are brought into discussions to understand the feasibility and practicalities of this. We will stand ready to contribute to these discussions as appropriate.