



## The Scottish Government's draft Heat in Buildings Strategy

### GWSF response, April 2021

#### 1 Summary of GWSF's key points

- Subject to the important caveats below on funding, GWSF welcomes the Scottish Government's ambitious climate change targets
- We welcome too the Scottish Government's recognition of the critical fact that newer technologies are more expensive to both install and run
- Despite the actions set out, there is an overwhelming sense among our members that the right infrastructure – including funding – to cope with the desired scale of change is a long way from being in place
- The financial commitment needed to make transformation a reality and avoid loading costs onto users, including social housing tenants, will be very substantial: at this stage we are not reassured that proposed funding commitments will be anywhere near sufficient
- The Scottish Government states that significant progress in installing newer technologies needs to be made in the 2020s, but the sector is uneasy about the lack of solid data on performance, reliability and costs, including longer term maintenance costs
- Solutions such as district heating schemes are challenging and require a range of particular circumstances to come together, including how smaller housing associations can partner with bigger not-for-profit energy suppliers, and around how owners will be subsidised
- Installing state of the art heating systems in buildings which are structurally unsound and leak a lot of heat does not make sense. The challenges of improving the fabric of our older buildings must be addressed if energy efficiency is to be effectively tackled
- The scale of the challenge will require outstanding leadership from the Scottish Government, and there is an argument for a dedicated Ministerial appointment to lead this

#### 2 Key principles and key concerns

Although the consultation document is long and detailed, GWSF is mainly making broad-based comments on key issues around future policy and funding. Inevitably our sole focus is on domestic buildings.

We are pleased to be represented on the Scottish Government's newly established Zero Emissions Social Housing Task Force. Notwithstanding our reservations about the speed with which the Task Force is being asked to plan for social housing to deliver a zero emissions approach, we look forward to working with others to identify the most appropriate contribution community based housing associations can make to lowering emissions.

The scale of the challenge is hard to underestimate, and is sobering in the extreme, with 80% of homes currently using mains gas as the primary heat source: this percentage is likely to be even greater in urban areas.

Social housing providers are used to taking the lead on issues such as energy efficiency, and have a good track record of identifying innovative approaches. Taking the lead on this issue will mean that our sector is effectively the first test of whether emissions can be significantly lowered without placing an undue financial burden on social housing tenants, who are among the poorest in Scotland's population.

It is especially welcome that the consultation provides a clear, early recognition that a fundamental aspect of the challenge we all face is that zero emissions heating systems are more costly to install and more expensive to run than traditional, high emissions equivalents. Up till now, it has been possible to argue that the provision of more modern energy measures has a direct, downward impact on fuel bills, but this will no longer be the case in the move to renewables.

In stating that a large share of the change to 2045 must be delivered in the 2020s (with at least 64,000 homes a year installing renewable heating systems by 2025), The Scottish Government is signalling it does not want to leave the heavy lifting till a later stage. In one sense that is to be welcomed, as difficult challenges are sometimes put off. But on top of our concerns about finance, it is worrying that the technological solutions in question – most notably heat pumps and heat networks – are relatively new, with only limited information on longer term reliability and maintenance costs.

GWSF's overall sense is one of unease that the magnitude of the challenge is not yet matched with the radical funding and other supports likely to be needed. Whilst the Strategy is urging that much of the reduction of emissions will need to be carried out in the current decade, housing associations are highly unlikely to feel confident developing plans based on the Strategy alone.

### **3 New technologies and new delivery vehicles**

Our members are anxious about what may seem like a headlong rush into installing new technologies when we do not yet know enough about longer term issues of reliability and efficiency. Significant maintenance liabilities may fall on housing associations from, for example, shorter than expected life spans for systems and equipment, and the possibility of occupants being unhappy if these systems cannot deliver adequate heat and hot water reliably and when it is needed.

The Strategy does not contain detailed information assessing the use so far of newer technologies. This will be perceived by our sector as a massive evidence gap at the moment, and we have to hope that more information will become available in the relatively near future.

As an example, one of our members has said that they may, in theory, be ideally suited for a district heating system, helped by the fact that, as a fully mutual co-operative, they have 100% tenants and no owners. Heat could be generated locally, but much greater clarity would be needed about the best form of fuel, the availability of the fuel in the long term, its cost, who would generate the energy and how effective metering and billing would be.

In terms of the greater difficulties for associations dealing with owners, the historic impact of the Right to Buy should not be underestimated. District heating solutions will be largely unviable unless owners agree to participate, and for this to have any chance of happening, significant subsidy will need to be available.

Generally, it would probably make sense for smaller local housing associations and co-operatives to seek to develop district heating systems in partnership with a large, not-for-profit energy generator who had the expertise in such a complex area and the scale to effectively undertake the billing etc., but at the present time it is not obvious that such potential partners exist. Our sector is acutely aware of the huge problems which engulfed a local association which was involved in a major contract to install external wall insulation through a complex, non-traditional funding arrangement. There is a real risk for smaller, local associations that similar mistakes could be made in the future, in the drive to find innovative energy solutions.

It will be important not to underestimate the magnitude of the task in hand for the construction and maintenance sector, which will need time to scale up and upskill for the rollout of a massive programme involving new and specialised technologies.

#### **4 A regulatory framework for zero emissions buildings**

GWSF welcomes the Scottish Government's intention to use regulation to support the transformation of buildings, particularly in light of the requirements on building owners to upgrade energy efficiency and install zero emissions heating systems.

In itself, though, labelling something a 'regulatory framework' does not mean there will be effective regulation. Governments of any colour will always be cautious and hesitant when it comes to regulating any aspect of home ownership. Existing commitments to introduce minimum energy efficiency standards for owners have been around for a long time but have so far not materialised, so there is inevitably going to be some doubt over whether and how this existing commitment could be further extended to cover the installation of zero emissions heating systems.

We note that multi-tenure or mixed-use buildings will be given until 2040-45 to improve both their energy efficiency and install a zero emissions heat supply 'given

the complexity involved in co-ordinating works and recovering costs between multiple owners'. The document refers to the likely need for a 'whole building intervention' simultaneously covering energy efficiency and heat supply improvements. This could be seen as further kicking the can down the road on minimum energy efficiency standards for owners.

On mixed tenure buildings, it is welcome that the Strategy recognises the complexities, but pushing the deadline back seems unlikely in itself to help, when more fundamental barriers exist to addressing disrepair and lack of energy efficiency in common blocks (including blocks which are fully private). The intervening period would need to see radical, new approaches to addressing disrepair in mixed tenure and private blocks: without this, the position in 10-20 years' time will be no easier than it is now.

## **5 Financial support for social landlords and for owners**

We welcome the intention to extend until 2026 the Social Housing Net Zero Heating Fund launched in 2020 to support projects to deploy new heating systems.

More broadly, though, it will be important for our sector to have a clear sense of the financial support likely to be made available to social landlords. Associations' long-term financial plans will need to be overhauled and cost assumptions worked up to demonstrate that business plans remain viable. There is a danger that underestimating costs or overestimating potential future subsidies may leave landlords in an exposed financial position. This would lead to extreme pressure on rent levels, potentially undermining the goal of reducing fuel poverty and, more broadly, tackling child and family poverty.

We welcome the commitment to publish a set of guiding principles to underpin its commitment to the notion of 'no-one left behind' in the move to newer heating systems. The fact that such guiding principles have not been part of this consultation perhaps suggests that addressing fuel poverty is going to be especially challenging, given the high costs which people will face.

We note and understand the statement that the estimated £33 billion cost of transforming buildings cannot be borne by the public sector alone, and that the intention is to establish a new Green Heat Finance Task Force *'to identify innovative solutions to maximise private sector investment, and find new ways to help individuals and organisations spread the upfront cost of investing in making their properties warmer, greener and more efficient.'* We trust that any such vehicles will be based on learning the lessons of the ill-fated Green Deal. Indeed they will have to be significantly different, because it will not usually be possible to claim that investment will result in fuel cost savings.

We welcome the statement that £1.6 billion of capital funding over the next five years will be targeted to support the most vulnerable – both those who can transition early and therefore face higher costs sooner, as well as those who transition later because, for example, the necessary technologies are not available. What is less

clear is whether people who transition earlier will be given any help with the subsequent, higher running costs.

We welcome the proposal to continue offering interest-free loans to individual owners, and to review the pilot home equity loan scheme which has been running in Glasgow and some other parts of Scotland for a number of years now. One challenge here is that up till now, owners using some equity to finance fabric or energy efficiency improvements will know they are helping protect the property value and reduce running costs: this may not be the end result of using equity to replace heating systems.

We would like to see a fair and even-handed system for providing subsidies to social landlords, Some of our member associations have been disadvantaged in the past, for example where eligibility for funding for the installation of external wall installation in mixed tenure estates through HEEPS:ABS funding (area based schemes) has been determined by reference to SIMD data. This has penalised associations in areas where home ownership levels are higher because of previous, high Right to Buy uptake, making funding much more difficult to access and, in turn, penalising tenants whose income is generally low.

## **6 National v local approaches**

We note that Local Heat and Energy Efficiency Strategies (LHEES), to be in place by the end of 2023, will provide the framework for area-based approaches to planning and delivering transition, and will also provide the basis for local public engagement. Our members look forward to proactively contributing to the development of local approaches within the overall national framework established by the Scottish Government.

## **7 Energy Performance Ratings**

We note that the EPC assessment process will be reformed to provide information to owners on the measures needed to improve energy efficiency, and on the cost of heating following those improvements. Whilst it is not explicitly stated, we would assume that these post-works heating costs will be compared with pre-works costs if they are to make sense to owners.

## **8 New homes**

Alongside the requirement for new homes (consented from 2024) to use zero direct emissions heating, the Strategy states that they will also need to feature 'high levels of fabric energy efficiency' to reduce overall heat demand and to avoid the need for retrofit in the future. At this stage of the aforementioned discussions on revised benchmark grant levels, the Scottish Government's proposal on the fabric of new homes is that the subsidy system should cover:

- *Delivering homes to Section 7, Silver Level, of the 2019 Building Regulations in respect of Energy for Space Heating (that is, full Bronze Level plus Aspect 2 of Silver Level)*

This is subject to review when the 2021 changes to the Building Regulations have been finalised. In the context of the move to low/zero emissions, it could be argued that this standard lacks ambition: it is crucial that the required standards for new build not only meet the requirements of EESSH 2 but are also adequate enough to achieve zero emissions without future retrofit.

The Scottish Government says it will also continue to support installation of zero emissions heating systems in new build, ahead of the expected Building Regulations change in 2024, though it is not clear how many such systems have been supported within the current five-year affordable homes programme.

In the current, national discussions to review the benchmark grant levels, a specific 'add-on' will be established to reflect the additional cost of providing new heating systems. GWSF and others are urging continued flexibility in applying the revised benchmarks, as individual circumstances will vary, and the add-on must not be seen as an upper limit. The Scottish Government is indicating its agreement on the importance of such flexibility continuing to be exercised, and is also likely to commit to review the add-on amount in the light of actual experience of installing such systems.

## **9 Traditional buildings**

The Strategy states that for traditional and heritage buildings, it is recognised that more bespoke technological approaches, including skilled design and construction, may be needed. It says the Scottish Government will work with stakeholders, including Historic Environment Scotland, to develop appropriate solutions.

Traditional stone tenements are not specifically cited here but are likely to be a significant element of the technological challenge over traditional buildings. This also raises the spectre of how quickly and willingly the planning system will be able to cope with transformation, when some of our members cannot even get approval for alternative look-alike windows to be installed in pre-1919 tenements.

Also there seems to be little recognition of the impact of poor building condition on the prospects of reducing emissions. The poorer the quality of existing housing, particularly in respect of the thermal envelope, the more acute this problem becomes.

## **10 Role of the energy companies**

We understand that some kind of scheme similar to the previous Energy Company Obligation will be part of the overall funding approach for newer technologies. Our sector will also want reassurance that when consumption is reduced, the energy companies will not just put up their prices to maintain their profit margins. The lack of

influence, let alone control, that the Scottish Government has over the energy industry seems likely to be a significant barrier to seeing a full and effective contribution from the companies.

## 11 Timetable for improving energy efficiency

It is helpful that alongside measures around new heating systems, the Strategy reminds us about existing energy efficiency targets across the different housing tenures. We reproduce these below, with our observations:

**Social housing:** The EESSH2 target is to achieve EPC 'B', or as high an energy efficiency standard as practically possible, by 2032. The Scottish Government wants to bring forward its review of EESSH2 from 2025 to 2023, *'with a view to strengthening and realigning the standard with wider net zero requirements, so that we can work in partnership with social housing to lead the transition to zero emissions buildings and avoid the need for further retrofit in the future'*.

GWSF can see some of the reasoning behind bringing forward the review of EESSH 2, but whether there will be sufficient clarity on a range of currently uncertain factors by 2023 seems doubtful. At the present time, many social landlords remain hesitant to rush into measures to help achieve the new standard with so much uncertainty around future developments such as on hydrogen.

There is uncertainty too from the relative newness of heat pump and other potential solutions. And on top of this, concern remains about funding for social landlords. This is likely to persist. With EESSH 2 already carrying the risk that tenants will pay disproportionately for energy efficiency improvements through their rent, the advent of zero emissions heating carries an even greater risk of this.

**Private rented sector:** The original target of minimum EPC 'D' by 2025 has been paused, the Strategy says, because of Covid, and replaced with a requirement to reach EPC 'C' by 2028, where technically feasible and cost-effective. GWSF is unclear how effectively standards in privately rented housing will be regulated, given the overall absence of property-based regulation in this sector.

**Home owners:** Long-expected regulations on requirements on owners to improve energy efficiency – by bringing their home up to EPC 'C' by 2035 (with limited exceptions) – will now be introduced between 2023 and 2025.

GWSF would note that minimum standards of energy efficiency for private homes were first muted almost ten years ago, and – as far as we can see – continue to be 'kicked down the road', due almost certainly to the universal reluctance of politicians of any colour to be seen to be perceived as telling home owners how to run their affairs. This reluctance will need to change if there is to be any meaningful enforcement of requirements on both improving the EPC rating and (longer term) on installing new heating systems.

**Mixed tenure buildings:** The Strategy recognises the barriers mixed tenure buildings present. It suggests that *'it may be more helpful for energy efficiency standards to apply to the whole building rather than to the individual properties'*. The document says the Scottish Government will consult on a requirement to reach EPC 'C', where technically feasible and cost-effective, and install a zero emissions heating supply, by 2040-45, depending on any 'date of zoning' under Local Heat and Energy Efficiency Strategies.

This part of the Strategy is unclear to GWSF and may need some clarifying – in particular the distinction between the 'whole of the building' and individual properties.

The impact of the Heat in Buildings Strategy on private landlords' ability and inclination to let property will be a significant factor in mixed tenure blocks. There needs to be a synergy between funding streams for housing associations and those accessible by private landlords and owner occupiers if mixed tenure blocks are to make a proper contribution to reducing emissions.

## **12 Conclusion**

The Scottish Government's climate change targets are commendable, and housing clearly has a major role to play in reducing emissions. GWSF believes, however, that whilst the draft Strategy recognises the scale of the challenge it does not yet put in place the range of radical cultural, policy and funding steps to make early inroads into reducing emissions in the 2020s a practical reality.

Along with a lack of robust data on the longer term performance of new technologies such as heat pumps and heat networks, significant changes of approach will be needed to address a number of major potential barriers to progress:

- How social landlords can be supported to install new heating systems without burdening tenants through increased rents
- How to develop a truly effective means of incentivising owners, particularly those in flats, to install new heating systems and wider energy efficiency measures
- How to get the big UK energy companies to support the programme of change and not be an obstacle to it
- How to engender wider cultural change, not least within the planning system, so that new approaches are genuinely encouraged and facilitated