

# BEIS Select Committee: Decarbonising heat in homes

## National Housing Federation response

13 November 2020

### Summary

The National Housing Federation (NHF) is the voice of housing associations in England. Our members own over 99% of housing association homes in England, providing 2.7m homes to around six million people. They also invest in a range of neighbourhood projects that help create strong and vibrant communities.

We welcome the opportunity to respond to the BEIS Select Committee inquiry into decarbonising heat in homes. We would also welcome the opportunity to provide oral evidence to the Committee.

In preparing our response we have consulted with our members, drawn on survey data and conducted secondary research.

For more information about this submission, please contact Rob Wall, Head of Policy at the NHF, via [Rob.Wall@housing.org.uk](mailto:Rob.Wall@housing.org.uk).

## NHF overall response

Residential housing contributes around a fifth of all UK carbon emissions, and social housing contributes around 10% of this. The vast majority of these emissions are generated by heating and hot water. Given the size and scale of the sector, decarbonising social housing will be critical to achieving the government's ambition of net zero greenhouse gas emissions by 2050.

The social housing sector has a good track record in delivering thermally efficient homes. As [our submission to the Treasury's forthcoming Spending Review](#) makes clear, a retrofit revolution led by the social housing sector would not only cut carbon emissions and help fight climate change, it would also create jobs, support local economies, cut fuel bills and help tackle fuel poverty. It could also pave the way for a nationwide rollout of an ambitious retrofit programme across all housing tenures.

There are, however, significant challenges to overcome if we are to retrofit at scale and pace and decarbonise our heating and our homes by 2050. Our response explores some of these challenges.

## NHF response to the committee's questions

**What has been the impact of past and current policies for low carbon heat, and what lessons can be learnt, including examples from developed administrations and international comparators?**

One of the key lessons to learn from recent experiences is the need for policy consistency. [As the Institute for Government noted in a recent report](#), policymaking in the UK is notoriously short-termist. The lack of consistency, the lack of long-term planning, the constant change in personnel and lack of coordination across government departments have all undermined previous efforts to decarbonise heat. The decision to abandon the zero carbon home standard in 2015, one year before it was due to come into effect, is a good example of this and undermined confidence in the government's commitment to decarbonisation.

We also need long-term funding solutions that are well designed, fair and sustainable. In the early 2010s, the Green Deal was the government's flagship energy efficiency programme in the UK – but this was closed within a couple of years and widely regarded as a failure: the interest rate was too high, the application process too difficult and the finance provided often did not cover the installation costs. In large part, [as the National Audit Office \(NAO\) concluded](#), the design and implementation of the scheme was poor. More recent initiatives, such as the Renewable Heat Incentive (RHI), also show the need for well-designed solutions.

Currently RHI payments often do not cover the full costs of moving to a renewable heating system and the phased payment approach (whereby payments are made over seven years) can cause problems with cashflow.

Our members have also reported some challenges with the new Green Homes Grant scheme and the Social Housing Decarbonisation Fund Demonstrator.

## **Green Homes Grant**

We have welcomed the new Green Homes Grant scheme and the fact that social landlords are eligible for funding. However, the requirement that works funded under the scheme must be complete by 31 March 2021 has made it next to impossible for most of our members to use the scheme to retrofit additional homes and install low carbon heating systems given the time it takes to plan, procure and deliver works.

The impact of coronavirus has made this even more of a challenge as, for example, many residents do not want installers in their homes at this particular time. One way to manage this particular challenge (of securing access to properties during coronavirus) would be to use the scheme to fund retrofit work in void properties. However, this is not allowed under the scheme due to resident eligibility requirements.

The delivery deadlines also fail to recognise the reality of undertaking retrofit work on the ground. For example, undertaking external wall insulation in the winter, in wet conditions, is far from ideal.

We have also heard reports that the scheme has driven up prices. One of our members has reported that once the Green Homes Grant scheme was launched, prices for the installation of measures such as air source heat pumps increased on average by around £5,000, compared to quotes received before the scheme was announced.

Extending the scheme for another year or more would address many of these challenges. It would enable housing associations to plan with confidence, would allow more time for engineers and installers to gain the necessary certifications, and would mean that work can be scheduled more efficiently and effectively.

## **Social Housing Decarbonisation Fund Demonstrator**

In advance of the promised £3.8bn Social Housing Decarbonisation Fund, the £50m demonstrator fund is an opportunity to test different approaches and learn important lessons before the roll-out of the main fund.

One key lesson is that the main fund must be directly accessible by housing associations. Currently only local authorities, or local authority-led consortia, are eligible to bid into the demonstrator fund. This has proved to be a significant barrier to many of our members engaging in the demonstrator and accessing funding.

Most housing associations have good relationships with local authorities and local agencies, and we are keen to encourage and support local partnerships on the green housing agenda. But in order to make the fund widely accessible we are asking the government to ensure that housing associations are able to bid directly into the full Social Housing Decarbonisation Fund when established.

The tight deadlines within which to prepare bids, and the process of bidding, has also proved a challenge to our members. This reinforces the need for a sustainable, long-term funding solution so that the social housing sector can plan effectively, work collaboratively and properly engage residents.

**What key policies, priorities and timelines should be included in the government's forthcoming *Buildings and Heat Strategy* to ensure that the UK is on track to deliver net zero? What are the most urgent decisions and actions that need to be taken over the course of this parliament (by 2024)?**

The forthcoming strategy needs to provide a comprehensive plan for the sector. As we set out in [our submission to the Treasury's the forthcoming Spending Review](#), to enable the sector to plan and deliver with confidence, the strategy needs to provide a policy roadmap to 2050, setting out the standards and requirements that housing associations will need to work toward to achieve the net zero ambition. In particular, the strategy needs to:

- Provide a clear definition of net zero for the sector, and clarity on how net zero should be calculated.
- Provide long-term clarity and certainty on policy, regulation, reporting and funding regimes. This includes what minimum EPC levels will be expected, and by when. This also needs to address the concerns expressed by members around the long-term suitability of EPC and SAP.
- Set clear milestones.
- Set out what forms of low carbon technology the government is championing.

- Address how we will invest in supply chains, and increase skills and capacity. This will also need to provide some certainty around long-term funding if supply chains are to have the confidence to invest in recruitment, training and innovation.
- Address quality concerns, and how we can assure ourselves that works delivered are safe, effective and to the required standard.
- Set out how we will engage and inform consumers and residents.

The strategy needs to set out how the government will work together to deliver the net zero ambition. BEIS leads on energy efficiency, including in homes, but MHCLG holds all the policy levers that are key to improving existing and new housing stock (such as building standards, supply and planning). And HM Treasury hold the funding.

The strategy also needs to recognise the diversity of the sector, and provide a framework that works for housing associations around the country, both urban and rural.

The strategy also needs to make the case for more ambitious environmental standards for new homes, as set out in [our submission on the proposed new Future Homes Standard](#). If we are to achieve our ambitions on tackling climate change, then we need to build new homes to a net zero standard as soon as reasonably possible.

### **Which technologies are the most viable to deliver the decarbonisation of heating, and what would be the most appropriate mix of technologies across the UK?**

There seems to be consensus that a mix of different technologies – including heat pumps, heat networks, hydrogen and biogases – will be needed to decarbonise heating systems.

For many of our members, hydrogen would be the easiest and least disruptive solution, although we recognise this would require significant infrastructure investment and present supply challenges. Many of our members are starting to install heat pumps, although this is costly and disruptive to residents. It also requires residents to adapt to the new technology and change their behaviours. To implement a heat pump solution at scale would also require local energy grids to be upgraded.

Some of our members have reported that the introduction of largely electric-based systems places large demands on the national energy infrastructure that, in many cases, is outdated and unable to cope with the increased demand.

We urge the government to outline the mix of technologies, and associated funding mechanisms, that will be prioritised going forward in the forthcoming Building and Heat Strategy.

### **What are the barriers to scaling up low carbon heating technologies? What is needed to overcome these barriers?**

We conducted a survey of our members to understand the key barriers to decarbonisation faced by housing associations. This includes challenges around installing and scaling up low carbon heating technology. Many of the barriers faced by the social housing sector will be similar to those in the private rented sector and to those faced by homeowners.

The key barrier is cost. The overwhelming majority of our members – nearly three in every four who responded to our survey – told us that concerns around funding were a key barrier to retrofitting at scale and pace.

Concerns around government policy were also cited as a major barrier. Over half of our members who responded to our survey said that unclear government policy made it difficult to plan effectively or with any degree of confidence.

Other major challenges highlighted by housing associations include concerns around unproven technology or approaches, the need to deal with other organisational priorities such as supporting residents through the coronavirus crisis and safety remediation work, skills shortages and supply chain concerns, and the absence of a sustainability strategy or net zero plan within the organisation.

The full survey results are set out below and can be [read on our website](#).

What are the principle obstacles to retrofitting?	% total responses
A lack of finance	74%
A lack of policy certainty and direction	56%
Concerns about unproven technology or approaches	47%
There are other organisational priorities	40%
A lack of capacity and capability in supply chains	34%
A lack of technical knowledge in the business	32%
A lack of a retrofit strategy or plan	22%
Unproven business case	21%
Resident resistance	14%
Planning issues	12%
Difficulties in procurement	10%
Other	16%

**How can the costs of decarbonising heat be distributed fairly across consumers, taxpayers, business and government, taking account of the fuel poor and communities affected by the transition? What is the impact of the existing distribution of environmental levies across electricity, gas and fuel bills on drivers for switching to low carbon heating, and should this distribution be reviewed?**

We recognise that costs will need to be shared between consumers, taxpayers, landlords, business and the government. It will be important, however, that those on the lowest incomes and those in fuel poverty – many of whom live in social housing – are not penalised or excluded from retrofit programmes.

For residents living in the social housing sector fuel poverty is a significant issue. Nationally (across all tenures) 10% (2.4 million) households live in fuel poverty, and after paying energy costs are left with a residual income that is below the official poverty line. Policy decisions on decarbonising heat in homes must take into account the financial needs of low-income households, and seek to address the broader issue of fuel poverty in tandem with net zero-carbon targets.

As [the Confederation of Business Industry \(CBI\) argue](#), there is benefit in the state providing public funding to drive decarbonisation in the social housing sector. We have made the same argument. The sector is well-placed to deliver a retrofit revolution: it has the experience, it has the ambition, it has the scale and it plans for the long-term. Supporting social housing in the short-term would also help build skills and supply chains and make the rollout of a national decarbonisation programme in the medium-term more achievable.

**What action is required to ensure that households are engaged, informed, supported and protected during the transition to low carbon heat, including measures to minimise disruption in homes and to maintain consumer choice?**

We know that lack of consumer demand is a barrier to retrofitting, and unless addressed will delay the transition to low-carbon heating. This is as significant a challenge in the social housing sector as it is in other tenures.

Housing associations are engaged in a wide range of activities to engage and inform residents: running information campaigns, hosting events and roadshows, appointing local green champions, co-creating sustainability strategies with residents, and much more. But we recognise there is more work to do

We know that consumers are largely unaware of the environmental impact of domestic heating and its contribution to the UK's carbon footprint. There is also a low



level of awareness around the different types of low-carbon heating available. For example, [research recently published by the National Grid](#) suggests that only 5% of consumers identified heat as a major contributor to UK carbon emissions, and only around one in five were familiar with heat pumps.

To address this, there needs to be a concerted and long-term campaign to inform, educate and incentivise all consumers, including residents, and to drive demand for low carbon heating. We know the government is supporting [Simple Energy Advice](#) as an impartial energy advice service, but a website and helpline alone will not deliver the change in hearts and minds that is required.

### **Where should responsibility lie for the governance, coordination and delivery of low carbon heating? What will these organisations need in order to deliver such responsibilities?**

If we are to achieve our net zero ambition, then all key stakeholders and organisations must work together and play their part. In the social housing sector, this means national and local government, housing associations, residents, investors, lenders, suppliers and others.

Delivery is often best left to local agencies, who will understand their communities better and know which technical solutions and approaches are best suited to local housing stock. This includes housing associations [who are often anchor institutions in their local communities](#). To enable local agencies and housing associations to deliver, they will need clear targets and timescales, appropriate resources and the authority to act.

There is a need for oversight and coordination at a national level. However, this should not be left to the government alone. This is why the NHF has called for a Decarbonisation Task Force, made up of key stakeholders, to advise Ministers and oversee progress.

Others have made similar calls. The CBI have called for the creation of a new [National Delivery Body](#), led by individuals from key sectors and organisations, to work with the government on creating, coordinating and delivering an overarching national heat decarbonisation programme. Policy Connect have called for a [Central Delivery Authority](#) to coordinate delivery at a regional level. The National Grid recommend the creation of a [Heat Transformation Council](#) to assess the deliverability of various low carbon heating options and to advise the government. These are all slightly different approaches, but all support the same principle: that key stakeholders must be represented and involved in the design and oversight of



the national decarbonisation plan. With 2.5m homes in total, this has to include housing associations and their residents.