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UK Finance is the collective voice for the banking and finance industry.

Representing more than 300 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

We welcome the opportunity to provide evidence in response to the [consultation](#) by the Climate Change, Environment, and Infrastructure Committee on decarbonising the private housing sector.

### **Summary**

1. The UK mortgage industry is committed to greening UK housing and supporting the just transition to net zero for both private rental and owner-occupied homes.
2. The development and provision of green finance to aid homeowners in improving the energy efficiency of their properties has already begun. We anticipate that the mortgage lending sector will continue to ensure greater provision of mortgage finance in the future. This will encourage greener home ownership and investment in rental properties as well as the financing of green retrofitting and home improvement.
3. In their consultation last year BEIS outlined proposals for lender disclosure of EPC data and voluntary target setting on the greening of mortgage portfolios which would cover the whole of the UK. Lenders are keen to ensure that the best data possible is available and used to underpin policy making and is prepared to work with other stakeholders to make sure this happens.
4. The mortgage industry also has a part to play in increasing customer education and awareness on how to be a responsible green homeowner or landlord and is keen to work with stakeholders across the housing and energy industries to ensure joined-up messaging. More broadly we are willing to work with and encourage all stakeholders to create a greener, innovative UK housing market and ensure that there is a clear pathway to net zero with all the necessary measures to enable this in place.
5. Mortgage lenders have an important role to play but cannot be solely responsible for resolving societal issues or ensuring homeowners make changes to properties, not least because a significant portion of properties in the UK do not have mortgages. We want to see clear policies in place so that we have a roadmap for greening UK housing and reaching net zero once current energy efficiency ambitions have been reached.

6. This policy environment needs to include:
  - a. Collaboration on a large-scale consumer education and communication campaign involving all stakeholders – public and private - in the housing market driven forward by the government
  - b. Collaboration in development of high-quality EPC and environmental housing assessments covering both energy efficiency and actual carbon footprints for all properties, updated and published on a more frequent basis and which reflect property improvements in a cost-effective way
  - c. A large-scale increase in the amount of appropriate, good quality and cost-effective retrofitting and energy system installation available to consumers
  - d. Meaningful, comprehensive and long-term public funding and support for property owners who are unable to access other funding sources
  - e. The use of government measures which incentivise improvements for all property owners, including but not limited to tax incentives
  - f. New build housing built to net zero standards to draw a line in the sand without any reduction in build quality.
  
7. It is vital that we get this right. An improvement in the energy efficiency of homes in the near future will have cost implications for both landlords in the rental sector and homeowners. These need to be considered fully by government, regulators and lenders to avoid any unintended consequences.
  
8. We must have a just transition that ensures no-one, whether landlord or owner-occupier, is left behind and unable to green their property to the required standard and facing negative consequences for this failure. To ensure this homeowners need to be supported and there needs to be action taken to address a range of concerns that dampen demand.

### **Consultation questions**

We have provided these comments/ responses to the issues on which the Committee particularly requested views in its consultation. In doing so, we expect policymakers will have regard to and build on the findings and key actions recommended in the [2019 Better Homes, Better Wales, Better World report](#) to Welsh Ministers on decarbonising existing homes.

### **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**

Retrofitting to reduce the carbon impact of privately-owned homes whether in the rented sector or the owner-occupied sector is potentially more challenging for policymakers as there is not the equivalent direct leverage of grant funding/ regulation that exists in the social rented/ RSL sector. Although in the PRS, there are local and national Welsh initiatives including licensing and registration including RentSmart Wales, that help to drive-up standards and landlord behaviour there is an opportunity for consideration of specific regulations and interventions focused on energy and environmental performance. In the owner-occupied sector, while there is some support for fuel-poor households, there is no comprehensive/ coherent pan-Wales approach to supporting decarbonisation in this sector, which means it can be more difficult to reach than the private or social rented sectors.

In 2020, the Business Energy and Industrial Strategy (BEIS) Department in Westminster consulted on proposals to improve the energy performance of PRS homes in England and Wales. The proposed targets were EPC “C” by 2025 for new tenancies and by 2028 for all tenancies.

The Department also consulted around this time on proposals for a new regime of disclosures and targets for mortgage lenders in relation to the EPC ratings of properties on their books – intended via first voluntary then mandatory disclosures to drive-up the energy performance of mortgaged homes. The proposals for England and Wales included setting a voluntary lenders’ target at a portfolio average of EPC Band C by 2030.

While supporting the principle of improving energy performance across all tenures UK Finance and lenders expressed concern about the proximity of the 2025 PRS target for new tenancies to achieve EPC “C” given that the supply chain and skills base together with landlord and tenant awareness are still underdeveloped.

Additionally, in the PRS, there are concerns about how improvements would be funded particularly in the context of rising cost pressures, materials shortages and increasing interest rates.

The BEIS Department has not finalised its proposals in this area, and formal responses to both consultations are awaited.

Until there is policy certainty on direction of travel in respect of the BEIS consultation proposals, the extent to which Wales-specific initiatives can be developed further might be limited.

Senedd members might wish to consider whether there could be other approaches developed within its competence/ powers to incentivise improvements to environmental performance in both owner-occupied and private rented homes.

### **The role of sector specific retrofit targets to help drive change**

There is a role for sector-specific targets, in helping to focus attention of homeowners on timelines for improvement as well as the overall need for improvement. To drive positive homeowner behaviour, however, targets should be set realistically with homeowners having sufficient time, knowledge/ understanding and resources to achieve them.

In practical terms, this means there would need to be good supply chain and skills base readiness in advance of target dates alongside measures to promote consumer understanding/ education of the need for action in addition to clear funding routes for installation of appropriate measures.

Targets which are unrealistic, or which are perceived as unachievable by homeowners/ consumers and/ or targets which are enforced via a sanctions or penalties-based regime risk negative consumer responses with negative behaviours likely focussed on avoiding the target and any associated penalty rather than positive behaviours towards meeting or exceeding the target.

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

We suggest these broad areas of focus:

**Short term** – building consumer understanding and awareness; education and information programmes designed to increase and embed understanding of the need for change and a positive call to action by assessing current environmental performance of homes and measures which could realistically and affordably be taken to improve on base line. Actions in the short term should also be preparatory to consumer action – so, building supply chain and skills base readiness and

developing funding options which should include blended public-private finance. Shorter-term targets could be considered for property archetypes that are easier and affordable to improve.

**Medium term** – consideration of a regulatory and/ or targets-based framework to formalise a requirement to improve. This could be structured (as BEIS proposes for the owner-occupied sector) with voluntary targets which could become mandatory if the voluntary route is insufficient to drive the required changes in time. In respect of regulatory requirements, our suggestion would be for these to part of an incentives regime rather than one of sanctions and penalties so that positive consumer behaviour towards compliance is encouraged rather than avoidance behaviour. Medium term should see outcomes that deliver willing consumer action to meet realistically set targets through encouragement and incentives. Mid-term targets could be considered for property archetypes that are more complex/ less typical and require a range of interventions.

**Long term** – Consideration given to moving from a voluntary regime to mandated standards backed by enforcement if voluntary change is insufficient. All property archetypes are improved as far as they can be within/ towards target taking account of practical and financial considerations and improved/ available new technology.

### **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**

Key challenges include not only developing appropriate and affordable blended funding options for landlords and owner-occupiers but also driving the right consumer behaviours to achieve target outcomes. This will require awareness-raising and education for example about what to expect and how to use and live-in a home with new/ unfamiliar technology installed, such as a heat pump. As above, it will also require action to ensure supply chain and skills base readiness. Overarching this are increasing cost challenges in terms of supply chain, skills, finance as well as installation/ running costs of measures for landlords and owner-occupiers.

### **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**

Please see our comments above about the need to incentivise rather than penalise consumer behaviour. Incentives are likely to drive more positive consumer behaviour while penalties and sanctions are likely to drive avoidance behaviour. As above, it might be appropriate to use an incentives-based approach in earlier stages of the journey to net zero and move towards mandated standards backed by penalties/ sanctions if the voluntary approach is insufficient. Policymakers should be mindful of unintended consequences, however, if penalties could have market effects such as preventing or delaying homes from being sold or let or driving down market values pending improvements. Such outcomes could suppress the market for unimproved properties leading to a two-tier market as well as having detrimental impacts on consumer finances.

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

The challenges of decarbonising energy supply at source and transmission (decarbonising the grid) remain, although progress is being made for example in relation to introducing hydrogen in the gas grid for use in hydrogen-ready hybrid boilers. There is more to be done, and we are aware

that Welsh Ministers are in active correspondence and dialogue with Westminster about reserved matters such as this. Similarly, Wales has constructive engagement and challenge on a range of net-zero pathway issues with the Climate Change Committee and it is encouraging to see in the Committee's reports how Wales is responding to those challenges within its powers. The CCC continues to actively challenge Westminster in respect of reserved matters, and we expect this challenge will continue alongside that provided by Welsh Ministers themselves.

If you have any questions relating to this response, please contact Matthew Jupp, Principal, Mortgages [REDACTED]

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