



Pwyllgor Newid Hinsawdd, yr Amgylchedd a Seilwaith /  
Climate Change, Environment and Infrastructure Committee  
Datgarboneiddio'r sector tai preifat / Decarbonising the private housing sector  
DH2P\_07

Ymateb gan Sefydliad Tai Siartredig Cymru / Evidence from Chartered Institute of  
Housing Cymru

## Decarbonisation of housing– Decarbonising the Private Housing sector

### CIH Cymru inquiry response

This is a response to the Climate Change, Environment, and Infrastructure Committee as it undertakes its inquiry into 'Decarbonisation of housing in Wales: Decarbonising the Private Housing Sector'.

#### 1. Introduction

For this submission, we define the “private housing sector” as being made up of two core tenures, owner-occupier, and the Private Rented Sector (PRS).

Housing is responsible for 21%<sup>1</sup> of all carbon emissions in Wales and owner-occupiers account for just under 70% of all homes in Wales and the PRS around 14%<sup>2</sup>. Current net-zero strategies have focused on social housing, implying that they are not applicable to more than four-fifths of Wales’s housing stock.

As outlined in the oral evidence CIH Cymru gave to the committee for its wider “Decarbonisation of Housing” inquiry, we believe private housing is the elephant in the room that must be addressed if housing is to play its role in reaching the target of a net-zero UK by 2050. Incentivising and funding the decarbonisation of private housing is the only way we will truly impact the marketplace (skills, supply chains, cost, technology) at the pace and scale needed if we are to meet our shared ambition.

CIH Cymru’s Tyfu Tai Cymru project has recently published a substantial report on the support that the PRS will need to meet the net-zero challenge, authored by Dr Donal Brown of Sustainable Collective, Severn Wye Energy Agency and Sero. Most of the evidence in that report goes to the heart of answering many of the committee’s questions in relation to the PRS. We thereby attach that report (see attached) – or you can view here <https://www.cih.org/media/zbccclbu/0510-ttc-decarbonising-wales-private-rented-sector-v5.pdf> – to this submission as our evidence in relation to the PRS and would urge consideration of the report as it

<sup>1</sup> <https://gov.wales/sites/default/files/publications/2019-07/decarbonising-welsh-homes-stage-1-report.pdf>

<sup>2</sup> <https://statswales.gov.wales/Catalogue/Housing/Dwelling-Stock-Estimates/dwellingstockestimates-by-localauthority-tenure>

contains relevant technical and other information beyond that in this response to the consultation questions.



The headline finding of our PRS report found that alongside existing policies, and assuming the current Warm Homes Programme is continued through the 2020s, this leaves an **89% funding shortfall for meeting EPC “C” in the Welsh PRS rising to 98% for the 2050 net-zero targets.**

Our evidence demonstrates the huge undertaking needed to meet the net-zero ambition by 2050 and we welcome the focus on all housing tenures as essential to reaching this aim.

### **Headline messages – decarbonising the private rented sector**

- Welsh Government should develop a long-term strategy for energy efficiency, fuel poverty and decarbonisation of the private rented sector (PRS) and integrate with broader objectives surrounding housing quality, fire safety and landlord licensing
- Welsh Government should engage with landlords and tenants in this process, including communicating the benefits of the programme alongside tailored support, advice, funding, and delivery via local ‘One-Stop-Shops’
- New regulations and standards are needed to drive the uptake of energy efficiency in the PRS, and in meeting net zero objectives. This will require increased resource and better enforcement, especially for Local Authorities
- Increased grant funding and new forms of financing are needed. The affordability crisis means fuel poverty funding should increase significantly, alongside new property linked financing and tax incentives for landlords
- A massive retrofit skills drive is needed, requiring public investment in new apprenticeships and a Welsh supply chain for low carbon technologies
- Decarbonisation of the PRS will require low carbon heat, especially via heat pumps, requiring government to create a level playing field, encouraging new business models, policy changes and a subsidy regime to drive down costs

## **2. 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;**

Alongside the need to decarbonise our homes, people across Wales are facing increasing bills and a probable sharp increase in people experiencing fuel poverty.

32% of Welsh homes were built before 1919, with just 6% built in the last 35 years. With an average Energy Performance Certificate (EPC) of “D”, Wales requires the highest investment to reach EPC “C” and has the lowest household income in the UK. In April 2022, energy prices increased by 54% a with further 32% increase expected in October. While in 2020, 20% of the Welsh PRS lived in “fuel poverty”, Welsh Government expect this to rise to >45% in 2022, with 98% (217,700) of low-



income households in fuel poverty and 91,700 (41%) in severe fuel poverty. From October, EPC “E” properties expect to be paying £3,853/year in energy bills, while G rated will pay £7,098/year – an unprecedented affordability crisis.

Housing policy and fuel poverty reduction is devolved to Wales. The Warm Homes and Energy Conservation Act 2000 required Welsh Government to ensure, as far as reasonably practicable, people in Wales do not live in fuel poverty. Indeed, until recently fuel poverty reduction in Wales was viewed as a success story. Between 2001 and 2009, more than 108,000 homes were given energy efficiency measures under the Home Energy Efficiency Scheme. In 2011 this was replaced by the Warm Homes Programme (WHP), which provided over £366m to 61,400 homes in Wales and advice and support to more than 144,800 people.

The PRS’s poor energy efficiency is partly explained by the “split incentive” where landlords are unlikely to capture energy efficiency measures’ cost and comfort benefits. In contrast, tenants receiving these benefits are unlikely to contribute to capital costs. In addition, various studies have identified reticence among tenants in requesting energy efficiency improvements for fear of rent rises or eviction.

The Minimum Energy Efficiency Standards (MEES) came into force for new tenancies on 1st April 2018, and all existing tenancies from April 2020; requiring rental properties in the PRS to have a minimum EPC (EPC) rating of “E”. It is now unlawful to rent a property below an E rating unless there is an applicable exemption, or the cost of the measures exceeds £3,500 (incl VAT).

However, there is significant evidence that the MEES are currently poorly enforced, due to a lack of resources in Local Authorities. The UK Government is now consulting on proposals for MEES of EPC “C” for new tenancies by 2025 and all private rented housing in England and Wales from 2028. The consultation outlines an average cost of £4,700 per home to meet EPC “C”, with a maximum spend likely capped at £10,000. Given that ~50% of Welsh fuel poor households are in EPC band “E” or worse, we can expect a higher average spend of at least £7,500 for the 36,000 PRS homes in fuel poverty, costing an expected £270m. Recent work by the Future Generations Commissioner (FGC) anticipates the total cost of meeting EPC “C” in the PRS to be £846m in Wales alone.

Alongside existing policies, and assuming the current Warm Homes Programme is continued through the 2020s, this leaves an 89% funding shortfall for meeting EPC “C” in the Welsh PRS rising to 98% for the 2050 net-zero targets. Most funding will need to come from landlords and other forms of private financing.

The Energy Company Obligation (ECO) 3 is now the main funding source for fuel poverty reduction in Great Britain, providing around £640m/ year, while



ECO4 (2022-2026) increase to £1bn/year. Combining these two schemes will deliver ~£296m for improving Welsh homes at EPC “E”, “F” or “G” through the 2020s (although evidence suggests Wales does not capitalise on its share of around £32 million a year). Studies also show that past energy efficiency programs have been poorly targeted at the PRS and landlords, who often lack access to the appropriate information, skilled contractors and the financial resources needed to complete the work.

Other policies such as the Landlord Energy Saving Allowance (LESA) - (allowing landlords to claim back tax against energy efficiency measures) have since been scrapped.

In terms of the owner-occupier sector, there is currently very little support for retrofit work either from government – both Wales and Westminster – or from lenders. There does not appear to be support to provide owners with the level of information needed about the type of retrofit that their house archetype will require to make an informed choice that provides piece of mind. Moreover, there have been an increasing number of stories appearing in the media about damage being done to home through substandard approaches to home insulation. One expert has estimated that up to two million homes across the UK may have problems because of insulation being pumped into the cavity between outside and inside walls<sup>3</sup>.

Furthermore, if homeowners do find information, there are very few financing packages available to support the punitive cost implications of a whole-house retrofit to EPC A – estimated by Cardiff University’s School of Architecture at between £17-67k depending on house archetype<sup>4</sup>.

“Green mortgages” currently offer either a) a lower interest rate or b) a cash-back incentive but both approaches offer little financial incentive to owner-occupiers<sup>5</sup>.

We are effectively faced with a chicken and egg scenario where lenders are unlikely to explore developing more attractive lending packages because there is little demand from the owner-occupier sector. Low demand is driven by lack of incentive from government or otherwise to spend upward of £17k on retrofitting one’s home.

We need a situation where government incentive and lenders join to create demand and, in turn, drive down market costs of retrofit technologies and approaches.

---

<sup>3</sup> <https://www.thisismoney.co.uk/money/news/article-10390579/Botched-cavity-wall-insulation-ruining-homes-causing-damp-mould.html>

<sup>4</sup> <https://gov.wales/sites/default/files/publications/2019-07/decarbonising-welsh-homes-stage-2-report.pdf>

<sup>5</sup> <https://www.theguardian.com/money/2021/nov/06/green-mortgages-could-your-loan-help-make-britain-greener>



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

Targets can be a good measure of progress but targets without a strategy to deliver outcomes, both in terms of financing or addressing issues around supply chains and skills gaps, can result in a meaningless exercise. However, targets could function as the stick through which to move different tenures to different positions along the timeline to 2050. For example, if there was an incentive to having a EPCA certificate for your home which would increase the likelihood of selling at a higher price than otherwise, that could drive behavioural change. To have credibility to the public there would also need to be a strategy to drive down the cost of retrofit which is viewed as costly at present.

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

Our report sets out further details in the technical solutions contained within our recommendations <https://www.cih.org/media/zbccclbu/0510-ttc-decarbonising-wales-private-rented-sector-v5.pdf>. A consistent issue raised during the interviews and workshop was the complex and overlapping regulatory environment for PRS landlords. 75% of landlords are non-professional or accidental landlords, who are often time poor and are poorly informed about the range of obligations they face.

*“You have to have information. [It’s] probably there and I haven’t found it. I’m not aware of it is the answer.” – Landlord 3*

There were concerns that if not implemented with greater support, new energy efficiency and decarbonisation regulations could exacerbate this picture and lead to further disengagement and non-compliance.

#### Recommendations for Welsh Government

##### 1. Develop a National Retrofit Strategy

Welsh government must develop a long-term plan for the decarbonisation of the housing stock and the evolution of the PRS, how the sector will achieve this in the context of other priorities e.g. fire safety, homelessness prevention and implementing the Renting Homes (Wales) Act. This should include setting targets and developing accountability within different government departments for meeting them.

##### 2. Engage landlords and tenants on this journey

This plan must be inclusive and bring both landlords and tenants on this journey, allowing them to co-create how programmes are designed in their local areas. These recommendations should be incorporated into the local One-Stop-Shops outlined below. This should include an effective advice and communication strategy which raises awareness among the public, providing certainty and support to households and landlords and set the direction of travel.

##### 3. Reform WHP & double funding

The WHP needs reform to focus away from fossil fuel boilers towards energy efficiency and low carbon heat, remove arbitrary cost caps per property, and better



target homes in the PRS - requiring a doubling of past funding and integration with other funding sources to ~£732m for 2020s, urgently targeted at the worst properties and those in extreme fuel poverty.

#### 4. Trial Property Linked Financing

The pervasive split incentive requires property linked financing which can integrate with other funding streams and enable sharing of costs and benefits between landlords and tenants on higher incomes. Recent research suggests the Development Bank of Wales would be ideally placed to trial models based on using both energy bills and council tax as a repayment channel, in conjunction with the other policies outlined here.

#### 5. Building Renovation Passports & Smart EPC's

The ORP is highlighting how better data on the characteristics of the housing stock is an essential pre-requisite of a National Retrofit Strategy. We suggest the following sequential steps are taken.

- Develop whole house plan for every Welsh home
- Record and track progress via BRPs
- Adopt smart EPCs and measured energy saving

#### 6. Resource and Train a Welsh Supply Chain

Delivering this agenda will require 12,710 skilled contractors in Wales alone. This will need a widespread skills drive involving increased funding for green apprentices as well as retraining for the existing ~8,000 RMI workforce. A range of measures will be needed, although we suggest Welsh Government should allocate an increased £2-3m/year for training.

#### 7. Ban New Fossil Fuel Heating by 2030

We believe that a hard stop date of 2030 for new fossil fuel heating is needed. This will provide certainty to industry and drive investment and innovation, as seen with the petrol and diesel ban.

### **Local Government**

#### 8. Resource & Enforce MEES Legislation

Local Authorities in Wales should immediately increase resourcing for MEES EPC "E" enforcement, adopting emerging best practice and coordinate between Rent Smart Wales, Environmental Health and Trading Standard's teams, developing an effective national MEES compliance and enforcement database and tools. We estimate these aims could be delivered across Wales for <£1m annually

#### 9. Develop Local One Stop Shops

Local authority led One-Stop-Shops are needed to provide an integrated and tailored offer to both landlords and tenants: providing advice, energy audits, financing and delivering quality assured retrofits. We recommend that Wales should aim to have a One-Stop-Shop in all 22 areas, and each should have a specific team focussed on the PRS and offer face to face and digital engagement to address different accessibility requirements. NEF estimate these models require around £12m per

500,000 homes retrofitted, or £33m for the entire Welsh retrofit programme.



#### 10. Integrate Funding Streams

Existing low-income funding streams are fragmented, creating piecemeal programmes and confusion for the public. We suggest integrating schemes such as ECO, Nest and Arbed and future 'able to pay financing' under a single offer to landlords, coordinated by the One- Stop-Shop.

### **UK Government**

#### 11. Regulate for EPC "C" in PRS

To improve standards the Welsh Government should urge the UK Government to increase MEES to EPC "C" for all tenancies by 2028 and, if unwilling to act, explore implementation of higher MEES standards in Wales only.

#### 12. Create Fiscal Incentives for Landlords to Invest

Various 'fiscal incentives' may be needed, the UK government should re-instate the Landlord Energy Savings Allowance (LESA), that provided up to £1,500 of tax relief.

#### 13. Level Playing Field for Heat Pumps

Heat pumps have the potential to create bill savings and have a lower cost of ownership than gas boilers, requiring the following policy changes:

- Removing environmental levies from electricity bills
  - Require suppliers to offer time of use, smart heat tariffs
  - Industrial policy to reduce ASHP install costs by 30%
- With these measures we estimate the total cost of ASHP ownership would be between only 1% higher and 24% lower than the fossil alternatives.

In terms of the owner-occupier tenure, the biggest barrier to progress at the pace and scale needed to address the climate emergency is the coalescence, or lack of it, between government incentive, the lending/mortgage market, and the impact of creating that demand at pace and scale to drive down market costs. There are various options open to the Welsh Government to plug this investment gap, as set out by the New Economics Foundation in its "Financing Wales's Housing Decarbonisation"<sup>6</sup>. There are lending mechanisms such as working with Local Authorities to trial the Property Assessed Clean Energy (PACE) mechanism, through a levy on council tax. PACE has been used in the US and is a lending mechanism that is attached to the property rather than the individual which address the "split incentive" issue which is a particular barrier for PRS landlords as described in our Tyfu Tai report.

Welsh Government could also look to working with the Welsh Development bank to provide a wider range of affordable lending products such as equity release models. Some of the options are set out in the table 1 below from the New Economics Foundation report.

---

<sup>6</sup> <https://neweconomics.org/uploads/files/Financing-Wales-Housing-Decarbonisation.pdf>

Table 15 Feasibility of finance mechanisms for private housing retrofit

	Central Government/ Public Bank Loan	PACE finance	Green Mortgages	On-bill Finance/ Green Deal 2.0
<b>Customer Journey</b> -How complex is it to access finance?	In both Scotland and Germany, the government is willing to waive onerous underwriting requirements. In Germany loans are disbursed through retail banks, while in Scotland this is managed by the energy saving trust. This makes the application process fairly simple with the majority of people eligible.	In the USA PACE financing is an incredibly simple process, as it can be offered by retrofit contractors. However, the transferability of this to the UK/Welsh context will not be straightforward as FCA consumer protection could make this more complex.	Mortgages involve a fairly onerous process of underwriting and credit checks. This is likely to deter less committed households, and therefore are likely to only be taken up in large numbers where wider cosmetic improvements are being made.	The Green Deal is infamous for its onerous Customer Journey, which was viewed as a hassle for both contractors and customers alike. Because it used private capital, lenders introduced fairly onerous underwriting requirements.
<b>Split Incentive</b> - Split incentive between landlords and tenants and those looking to move?	Neither of these schemes are designed to solve the split incentive barrier, although the Scottish scheme has a specific product for landlords, where landlords are expected to cover the costs of repayment.	Theoretically PACE financing solves the split incentive barrier, tying the repayment of finance to the property, meaning landlords or those looking to sell are not tied into repayments.	Green mortgages do not solve the landlord tenant dilemma. However, because the debt is secured to the property, it will be cleared upon the sale, potentially also opening up the shorter-term property developer market.	One of the key advantages of On bill financing is that it resolves the split incentive issue, although there are examples of buyers requesting these debts to be cleared prior to a properties sale.
<b>Political</b> -How easy/hard to implement -Where would change be needed?	These models both require significant political will to be implemented, also requiring large sums of publicly backed capital to be committed. Germany benefits from a pre-existing institution in the KfW, whereas a Wales or UK wide scheme would incur significant set up costs.	PACE financing will require several changes to the way council tax is estimated and collected. The extent to which this will require major changes to legislation remains uncertain.	Green mortgages do require some support from government to get going, however, we expect this market to be largely private sector led, subject to policy actions in other areas driving demand for retrofits.	While there would be limited changes to legislation required to resurrect a Green Deal 2.0, its toxic brand means that politicians will likely be reticent to being associated with its revival.
<b>Social Justice</b> -Share of financial burden -Who sees a return, is this felt in local economy?	Because these models mobilise public backed capital at 0% interest, they are viewed as correcting market failures and thus acting in the public interest, providing access to capital for groups who would otherwise not be deemed creditworthy.	Without regulation, there are risks that landlords could pass the costs of retrofits onto tenants without their permission. Private sector PACE loans also have a higher cost of capital, which could add a burden to future property owners or tenants.	Green mortgages are unlikely to create negative outcomes for disadvantaged groups. However, the model is only likely to be accessible to wealthier homeowners, doing little to solve issues at the bottom end of the market.	In a similar vein to PACE there are concerns surrounding landlords passing the costs of renovations on to tenants. Although the original green deal included safeguards, there is also the risk that total costs may increase.

We recognise that there are some actions available to the Welsh Government, there are other interventions that the Westminster Government should offer, such as influence over the Green Mortgage market and private investment at the scale needed to make any headway in retrofitting all our homes in Wales. We need a huge intervention on the scale that is happening in Italy<sup>7</sup> where the government fund up to 110% (and up to 100,00 Euros) of the cost of whole-house retrofit (insulation and heat pumps).

Homes are one of the biggest carbon emitters; homeowners can't afford to retrofit; therefore, there has to be state-intervention on a big scale. That level of intervention drives the market, supply change and skills agenda. So far, the Italian Government has spent €21bn (£17.5bn) on the scheme and there's been an immediate boost for the construction sector, GDP and the creation of more than 150,000 new jobs<sup>8</sup>.

**5. 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;**

In our Decarbonising Wales' Private Rented Sector report, we set out the perceptions of landlords and tenants in the PRS to the need to retrofit many properties. Respondents told us that any plan must be accompanied by a widespread communications strategy, using different forms of media and engagement to bring the public on the journey.

<sup>7</sup> <https://www.itv.com/news/2021-10-21/italy-offering-to-pay-full-cost-of-upgrading-to-green-homes-plus-a-bonus>

<sup>8</sup> <https://www.theguardian.com/world/2022/apr/13/italys-superbonus-110-scheme-prompts-surge-of-green-home-renovations>





*“If you know if there’s loads of us doing it then I would feel more comfortable in that situation.” Landlord 3*

They also told us that Local Authorities: remain among the most trusted organisations in communities. When asked about who should deliver a retrofit programme, many landlords and tenants we interviewed saw a key, coordinating role for local authorities.

*“if they’ve got a streamlined system with a dedicated installation engineer that are trusted by the Council, then I won’t have to go along...with a load of cowboys.”- Landlord 2*

There was also evidence of a breakdown in trust between landlords and tenants, with tenants fearful of rent increases, evictions or landlords abusing their power and therefore unlikely to ask for improvements:

*“So I think [landlords] can, almost, Impose any conditions that they want, and they know that they’ll still get a tenant at the end of the day.” – Tenant 3*

*“the new landlady wanted to almost double the rent. So we then moved out” – Tenant 1*

In terms of the owner-occupier tenure many of the barriers, which are predominantly financial or access to affordable finance are outlined in the answer above.

The Welsh Government needs to work with mortgage lenders and the Wales Development Bank to join up financing products and government backed incentives to drive demand in the marketplace.

Owner-occupiers are unlikely to add £25k or more to their existing debt unless there is an incentive to do so. Part of that incentive needs to be low-cost lending but there must be more incentives attached by Government, for example through Council Tax or Land Transaction Tax relief.

**6. 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;**

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

As stated in previous answers we need both carrot and stick to drive the pace and scale we need to retrofit private housing. The balance must be right and complimentary.



Chartered  
Institute of  
Housing  
Cymru

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

CIH Cymru is unaware of any specific example of where the Welsh Government has specifically tried to influence decisions on reserved matters related to the decarbonisation agenda.

However, the Westminster Government's scheme to provide grants of up to 5,000 for air source heat pumps suggested that the approaches of both Governments are not joined up. The Welsh Government has identified a fabric-first approach to retrofit because if you fit heat pumps to homes before they are properly insulated you are likely to increase fuel bills quite substantially.

We need all governments in the UK to be joined up in their approach if we are to influence the marketplace and supply chains to drive down costs.

About CIH

The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple – to provide housing professionals and their organisations with the advice, support, and knowledge they need to be brilliant. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector.

We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world. Further information is available at: [www.cih.org](http://www.cih.org).

August 2022