Heating our homes

G15 submission to Energy Security and Net Zero Select Committee

August 2023

About the G15

The G15 is made up of London's leading housing associations. The G15's members provide more than 770,000 homes across the country, including around one in ten homes for Londoners. Delivering good quality safe homes for our residents is our number one priority. Every year our members invest c.£1bn in improvement works and repairs to people's homes, ensuring people can live well. Together, we are the largest providers of new affordable homes in London and a significant proportion of all affordable homes across England. It's what we were set up to do and what we're committed to achieving. We are independent, charitable organisations and all the money we make is reinvested in building more affordable homes and delivering services for our residents.

Find out more and see our latest updates on our website: www.g15.london

The G15 members are:

- A2Dominion
- Clarion Housing Group
- The Guinness Partnership
- Hyde
- L&Q
- MTVH
- Network Homes
- Notting Hill Genesis
- Peabody
- Riverside
- Southern Housing

For more information, please contact G15@lggroup.org.uk

Executive Summary

Improving the sustainability of the homes we provide and cutting energy bills for residents is a critical priority for all G15 members. The need to decarbonise our homes has been thrown into sharp relief by the rising cost of energy over the past year.

However, G15 members are balancing a number of pressing priorities in an increasingly challenging financial environment, as we underlined in the recent Levelling Up, Housing and Communities Select Committee hearing into the finances and sustainability of the sector. The safety and quality of our existing homes are our absolute priority and members are currently investing c.£1bn a year into improvements to their existing homes. Without additional support we will struggle to meet the very substantial funding and coordination requirements that full retrofit and decarbonisation of our homes requires.

In summary the key themes are a need for:

- A new, long-term funding framework
- Clear government policy and approach
- Changes in relation to planning requirements for new builds as well as retrofitting existing homes
- Skilled workforce
- Resilient supply chain

Responses to consultation questions

Question 1: What policy changes are needed to deliver energy efficient homes across the UK?

Response:

G15 members are making relatively good progress in improving the energy efficiency of the 770,000 homes we collectively own and/or manage. 73% of our members' homes already meet or exceed EPC C, and we plan to retrofit roughly 27,000 homes by 2025. 82% of these homes will be upgraded using BEIS/DESNZ funding. We remain committed to achieving EPC C on all our homes by 2030, but we have around 98,000 homes to retrofit after the current BEIS/DESNZ grant funding round ends in 2025, including some of our hardest to retrofit homes. Financing this without external support will be a tough ask in the present operating environment.

Getting homes to EPC C is just the start. This will not be enough to meaningfully help many people in fuel poverty who cannot afford to heat their homes. Nor will it, alone, lead to the reduction of carbon emissions required to achieve net zero. Significant further investment in low carbon heating systems, the fabric of existing homes, on-site renewable energy generation and offsets is required. Due to the number of unknown variables involved, estimating the total cost of achieving net zero emissions across our stock is challenging, but G15 members anticipate the average cost of achieving net zero per home to be £6,730–£30,952, meaning the total cost to members of net zero could be up to £23.8 billion.

Expenditure is also rising steeply in other areas as we deliver substantial and essential additional works to existing homes. For example, our members will spend £4 billion over the next decade on building safety works alone. This comes at a time of significant financial pressure on housing associations as regulated rent – our main source of income – is increasing at rates significantly below cost inflation, particularly in maintenance and build. To ensure long-term financial sustainability, housing associations are having to prioritise between essential safety and quality works, investment in the infrastructure that enables service improvement, building new homes, and zero-carbon improvements.

Given the extent of these challenges, Government policy changes are needed at two levels to improve the energy efficiency of our homes. We've summarised these below:

Placing housing associations on a surer financial footing to invest in new and existing homes

- A long-term plan for housing, involving Government working with the sector to agree a financial strategy for the sector that makes zero carbon affordable
- This strategy should increase the duration of the Affordable Homes Programmes from five years to ten to offer housing associations long-term certainty over the provision of capital grant subsidy
- It should also involve a new long-term rent settlement that is stuck to, so housing associations can be confident in committing to the delivery of ambitious retrofitting programmes

Removing some of the financial and practical barriers to achieving net zero

- Provision of long-term rather than piecemeal funding through the Social Housing Decarbonisation Fund to avoid putting undue pressure on the supply chain and inducing unnecessary cost increases
- Better and more supportive planning policies that help, rather than hinder, retrofitting

- Greater support with decarbonising listed buildings
- Enforcing higher energy efficiency standards across new builds, so these don't require retrofitting by 2050
- Fostering greater collaboration across the energy and construction industries to explore energy-efficient innovation
- Reviewing the not fit for purpose Energy Performance Certificates system (see response to question 12)
- Consideration of how city and regional councils can complement the approach taken under the Social Housing Decarbonisation Fund (SHDF), by encouraging collaboration and more localised multi-organisation approaches to prioritising estates for upgrade
- Equip DESNZ to be a leading department with skilled people creating, supporting, and delivering long-term policies
- Work with the sector to develop a comprehensive supply chain and skills strategy that supports the full range of Net Zero, maintenance and homebuilding goals

Question 2: What are the key factors contributing to the under-delivery of the UK's government-backed retrofit schemes?

Response:

Previous schemes that have underdelivered have typically relied on delivering financial subsidy directly to consumers, for instance the Green Homes Grant. These have suffered from a lack of consumer engagement and a shortage of suitable suppliers.

The primary government scheme for retrofit in the social housing sector – DESNZ's £3.8bn SHDF – is still in its infancy. So far, housing associations have only been involved in small-scale 'demonstrator' bids, some of which have faced delivery challenges.

It is only recently that substantial grant (£778m) has been made available to providers. G15 members* received around a quarter of SHDF funding (£194.3 million), which we intend to use to retrofit 21,030 homes by 2025, funding the upgrade of a further 4,626 through internal capital investment. We are confident that we will be able to deliver on these plans and have mitigated the many of the risks that may lead to under-delivery.

Nonetheless, we have identified the following as potential barriers to successful delivery:

- A lack of certainty around decarbonisation targets, including which scopes we will be expected to reduce emissions in, and the timescales we need to follow, leading to high-level strategic uncertainty
- The length of time, complexity and expertise required to coordinate a successful bid
- Skills and capacity shortages in the supply chain associated with the complexity of achieving vital PAS 2035 accreditation
- Rising costs and shortages of key materials to deliver retrofit, especially air source heat pumps

Many of these challenges are exacerbated by the short-term grant cycle, which means it is more difficult to build confidence, unlock supply chains and grow capacity.

* Including the Greener Futures Partnership, of which G15 member Hyde is one of five members.

Ultimately, the more experience of delivering retrofit the sector has, the more cost effective and efficient it will become.

Question 3: Which standards and assessment frameworks are needed to deliver a reliable, skilled workforce capable of transitioning UK homes to modern heating standards?

Response:

It is vital that retrofit is completed to a consistently high standard. Poorly installed insulation will lead to damp and mould problems in the future and an inadequately insulated home will be much more expensive to heat using low carbon heat sources. PAS 2035 is the right standard for this, although its stringency means it will take time for the sector to build up the relevant skills and capacity. We are committed to working with our contractors to ensure they can deliver.

There is still a degree of technological uncertainty from the government as to which form of decarbonised heat it favours, especially for heat networks. We will need to work closely and cooperatively with the gas industry to transition away from fossil fuels and re-skill gas engineers to work with air-source heat pumps, but we need a stronger relationship with them to facilitate this.

We would welcome further clarity on the energy efficiency requirements in future updates to the Decent Homes Standard, so that we can plan for these as soon as possible.

Question 4: How might the Government support innovation in delivering local solutions?

Response:

Above all, we need a long-term and certain funding settlement. Currently, there is no certainty that SHDF grants will last beyond 2025, which makes it harder to plan, budget and train colleagues to deliver retrofit innovatively and effectively. Our ideal solution is to provide financial certainty through the social housing rent settlement, so that providers can fund energy efficiency upgrading through internal capital budgets as much as possible. Having said this, our current approach to retrofit is designed to be incremental and adaptable to changing financial circumstances, so we would welcome any extension or expansion of the SHDF.

As well as funding, coherent and consistent regulatory frameworks and policies are necessary to ensure that all housing developers and landlords are held to the same standards. Clear timelines need to be set out for the transition to net zero for all sectors to abide by. In the housing sector, this should include certainty around the introduction of statutory Minimum Energy Efficiency Standards for social housing, as well as providing confidence that the 2025 Future Homes Standard will go ahead, and that the net biodiversity gain requirements will remain in place. If these regulations are not supported, there will be little incentive for businesses in the wider supply chain to continue to innovate and produce new products and services that meet environmental targets, with a knock-on effect for G15 members' ability to meet these targets.

Additionally, as this is a new area, any opportunity to test solutions in a controlled environment to understand regulatory compliance, and to share best practice on stock modelling, retrofit or technological solutions would be valuable. We would also welcome increased support for and standardisation of innovation hubs.

Question 5: What role should customer choice play in the future planning of energy networks for home heating?

Response:

We know residents must be at the heart of our net zero transition for it to succeed. Retrofit will require significant changes to residents' homes. We want to work through these challenges co-operatively and empathetically with residents and minimise the disruption to their lives.

This starts with involving residents in decision-making processes and explaining the need for retrofit measures in an accessible way. Wherever possible, residents should be given ownership over the changes that are happening to their home. For instance, we find that residents favour fabric upgrades over the installation of decarbonised heat sources as the first efficiency upgrade measure.

At all stages, providers need to take the diverse needs of residents and the different ways they may use their homes into account. This means specific communication with vulnerable residents and using all available resident engagement groups to raise awareness of measures.

The Heat Network Regulations currently under consultation will also need to consider the role of choice, particularly when moving to heat networks from individual heating. Residents on schemes being transitioned need to feel confident that they will see cost reduction or parity, and that any problems will be resolved in an appropriate manner.

Question 6: Does the current state of consumer protections for low-carbon home technologies represent a barrier to uptake of these products?

Response:

The biggest barrier to the uptake of low-carbon home technologies at the consumer level is the lack of consumer familiarity with them, followed closely by cost, as well as the learning curve required to operate them.

This is why a public awareness campaign is needed alongside consistent regulation to provide individuals and businesses with the information and confidence they need to make the right choices.

We recognise the concerns raised by the Competition and Markets Authority's recent report into consumer protections in the area. Social housing residents are in some senses insulated from some of these concerns, as we (their landlord) deal directly with the green heating and insulation sector. Nonetheless, as outlined in our response to question 5, we are committed to providing residents with sufficient (and accessible) information to make a meaningful choice.

Question 7: How will the public be able to afford the switch to decarbonised heating?

Response:

Buildings designed and built to high standards of fabric efficiency, with a well-designed heat pump system and (where appropriate) renewable electricity generation, combined with sufficient information and support provided to residents on how to run their heating system properly should be no more expensive to run than current heating systems.

However, building regulations (outside of the GLA's remit) still permit construction of homes that will need to be retrofitted further down the line. As a rule of thumb, it costs 3–5 times more to decarbonise a property after it has been built than to build it to high standards in the first place, not to mention a great deal of disruption for residents, so this represents poor value for money.

It would also be beneficial to prioritise enhanced fabric efficiency as far as possible, incentivising this approach in new builds even if low carbon heat has to come later. Heat pumps without enhanced fabric efficiency will increase running costs. We would support linking grant support for decarbonised heating to fabric efficiency improvements, to ensure heat pumps don't cost more to run than pre-existing systems.

Shifting from fossil fuel-heated homes to homes heated using electricity will significantly increase electricity demand. Major investment into renewable energy sources is necessary to ensure that this electricity is available, affordable, and not generated by fossil fuels. Despite the upfront capital costs, renewable energy is likely to be cheaper in the long-term as it is not subject to the geopolitical risks that have triggered recent fossil fuel price shocks.

For existing homes, we welcome any funding arrangement that does not pass additional costs on to consumers, particularly to social housing residents, most of whom are financially stretched and unable to tolerate significant cost increases. This could be in the form of a low-interest loan at the household level which is repaid over time by savings on energy bills due to lower consumption. Any approach that relies on using consumers' energy bills to repay investment must use performance in use figures, rather than modelled figures from SAP scores or similar.

Consumers should also be encouraged to reduce their consumption wherever possible. Last winter's trial of the Demand Flexibility Service to pay households to use energy outside of peak times by National Grid was a success and should be scaled up and emulated wherever possible.

We support the government's mooted review of levy regimes that disproportionately burden electricity unit rates over gas. This should reduce electricity unit rates, making electric heating systems more competitive to run.

However, until the low carbon heat source industry is sufficiently mature to enable price parity with gas boilers for installation, it will remain a challenge for decarbonised heat sources to compete with traditional fossil fuel systems.

Question 11: How will decarbonisation plans be drawn up in each area?

Response:

Most housing providers are working to map out how they will decarbonise homes. This process typically involves:

- EPC/SAP data improvement to create a clear picture of homes and decarbonisation need
- Modelling of various scenarios based around reaching EPC C by 2030 and net zero by 2050 to map out measures, cost and sequencing of investment
- Establishing the principles of delivery, for example deciding on whole house retrofit versus incremental and whether to deliver alongside other planned works or on a localised basis
- Prioritising actions, usually based around EPC rating, area, deprivation, other planned works (to achieve economies of scale) and wider strategic targets
- Considering resident journey and impact to maximise access and completion rates

At the local level, providers will also seek to understand the baseline of current infrastructure across all providers in their area and ensure that all stakeholders are involved in the planning process to avoid any roadblocks. Where relevant, we will also look at unique renewable solutions available in different locations across the UK.

Question 12: Do the current EPC frameworks help consumers make informed decisions on transition?

Response:

As stated in the Committee on Climate Change's (CCC) letter to Lee Rowley and DLUHC, written with input from G15 members, the current EPC framework is better suited to measuring energy consumption than energy efficiency and is not designed to support the transition to net zero emissions. We also have concerns about the accuracy and reliability of EPC ratings.

We welcome DLUHC's plans to reform the EPC rating and Standard Assessment Procedure and encourage it to use "real world" units that can be easily understood and compared against actual performance. We agree with the CCC's proposals that the new rating system should include information about energy, fabric, heating and cost.

Members would prefer for the estimated £25 million cost of conducting EPC surveys (over 5 years) to go towards measures that are better understood by residents and more directly relate to energy efficiency improvements.

Question 13: Do standards need to differ for different types of housing?

Response:

We favour a unified standard that takes the complexity of the UK's housing stock into account. It should consider property age and archetype, level of energy consumption, readiness for new technologies (both from a property and resident perspective), financial viability, practicality and location (including any zoning considerations).

Question 14: What is the role of different levels of government in developing, funding and implementing schemes?

Response:

Every level of government should consider how their work contributes to the transition to net zero. Sustainability cannot be limited to one department or level, and if it is, this may lead to

mixed messaging and an overall sense of inertia, which will make it harder to deliver lower emissions.

Our key ask is that central government give us certainty in terms of timelines, funding and technology. To be efficient and cost effective, many retrofit changes require long term planning (10 years or longer), which we cannot deliver if parameters are frequently changed.