

Decarbonising the private housing sector

February 2023



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February 2023

Under embargo until 00.01 hours on Tuesday 28 February 2023



About the Committee

The Committee was established on 23 June 2021. Its remit can be found at:
www.senedd.wales/SeneddClimate

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Plaid Cymru



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Chair's foreword

As the world grapples with the pressing issue of climate change, the Welsh Government must take proactive measures to decarbonise Wales' existing homes. Despite the urgency of the situation, the private housing sector is being left behind in the journey towards a greener future.

With over a million homes in the private housing sector in Wales, the majority of which will still be in use in 2050, there is a pressing need for a comprehensive plan to retrofit these homes for improved energy efficiency and low-carbon heating. It's a massive undertaking. But, with no long-term strategy or plan for getting the sector ready to decarbonise, no firm policy proposals to incentivise retrofit, and a gaping hole where financial solutions for the 'able to pay' should be, the Welsh Government has an inordinate amount of work to do. No matter how often we are reminded of the challenges in decarbonising the sector, the fact remains – it needs to be done, and there's not much time left to do it.

As we publish this report, the cost-of-living crisis is deepening. Energy bills are still skyrocketing, and fuel poverty is at record levels. Households across Wales are struggling to keep their heads above water. For many homeowners, the prospect of needing to invest in retrofit at some point in the not-too-distant future will be daunting at best. Clearly, public funds will not stretch to meet the cost of retrofitting all of Wales' homes. Those who can afford to pay should pay, and those who cannot pay should get additional support. There are financial solutions that will ensure retrofit is within reach of all homeowners. Unfortunately, they're not available yet. The Welsh Government must act faster to address this if it's going to make progress.

The recommendations in this report may not be revolutionary, but they are crucial. Without decisive action, the country will not meet its climate change targets, and the private housing sector will continue to be left behind. The Welsh Government must now move on from 'testing and learning' and start 'decision-making and delivering', so that all homes in Wales can begin the journey towards decarbonisation.



Llyr Gruffydd MS

Chair, Climate Change, Environment, and Infrastructure Committee

Recommendations

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Recommendation 5. The Minister must publish an interim report on findings of the Optimised Retrofit Programme to date.....Page 20

Recommendation 6. The Minister should explain why she chose not to involve the private rented sector from the beginning of Phase 3 of the Optimised Retrofit Programme. She must also explain how and when the optimised retrofit approach will be "incrementally extended" to private rented sector and owner-occupied homes.....Page 20

Recommendation 7. The Welsh Government must publish its response to the consultation on the next iteration of the Warm Homes Programme no later than March 2023. If the Welsh Government is not in a position to do so, we expect it to explain the reason in responding to this report.....Page 26

Recommendation 8. The Welsh Government's response to its consultation on the next iteration of the Warm Homes Programme must provide further details of the Nest replacement scheme, including eligibility criteria, cost caps and energy efficiency retrofit measures.....Page 26

Recommendation 9. The Welsh Government should explain how it intends to address gaps in provision following the end of the current Nest scheme and the launch of its replacement. The Welsh Government must accelerate work on the

replacement scheme so that it can be launched by end of summer 2023 at the latest..... Page 27

Recommendation 10. The Minister should provide a detailed explanation of the proposed new programme to support housing decarbonisation (referred to in her letter to the ESJ Committee), including when it will be launched, how it will support the ‘able to pay’ sector, and the level of investment that will be made available for delivery of the programme over the next three years. Page 27

Recommendation 11. The Minister should commit to monitoring the impact of the “collaborative approach” to ECO4 on local authority participation in the scheme and on the level of ECO funding for Wales. Page 27

Recommendation 12. The Minister should explore with UCL Energy Institute the potential for using its all-Wales building stock model as a means of identify households eligible for ECO funding and for any future grant funding to support energy efficiency retrofit. She should report back to the Committee on the outcome as soon as practicable. Page 27

Recommendation 13. The Minister should clarify whether and how the Welsh Government is promoting the UK Government’s Boiler Upgrade Scheme among homeowners in Wales..... Page 27

Recommendation 14. The Minister should review the Welsh Government’s guidance on planning permission for heat pumps with a view to relaxing the requirement that no part of the heat pump can be installed within three metres of a property’s boundary, in line with England. Page 27

Recommendation 15. The Minister should clarify the Welsh Government’s position on the use of regulatory standards to increase retrofit activity in the privately-owned sector, including whether it supports the UK Government’s proposal to increase MEES in the private rented sector.34

Recommendation 16. The Minister should:

- explain when and how the Leasing Scheme Wales will be scaled up to support the Welsh Government’s wider decarbonisation ambitions; and
- provide details of the level of investment that will be made available for the Scheme’s delivery over the next three years. Page 34

Recommendation 17. The Welsh Government must demonstrate leadership and proactively engage UK Government at the highest level to ensure Welsh local authorities' resource needs in relation to MEES compliance and enforcement are fully understood and met. Page 34

Recommendation 18. The Minister, in conjunction with Rent Smart Wales and local authorities, should review arrangements for ensuring MEES compliance and enforcement with a view to identifying potential areas for improvement. The review should cover, as a minimum:

- Rent Smart Wales' role in raising awareness of MEES among landlords and in identifying underperforming properties, and
- how information on underperforming properties is shared between organisations to ensure targeted support and/or compliance and enforcement action. Page 35

Recommendation 19. The Minister should explain why a Welsh housing survey was not undertaken in 2022. She should commit to undertaking a continuous national survey, akin to the English Housing Survey, with the first survey to be undertaken as soon as practicable. If the Minister is unwilling to commit to such a survey, she should provide a detailed explanation of why. Page 43

Recommendation 20. The Minister should clarify whether and how the Welsh Government intends to improve understanding of energy consumption and carbon emissions in the privately-owned sector without access to smart metre data. Page 43

Recommendation 21. The Minister should provide details on her latest discussions with the UK Government on gaining access to smart metre data. She should commit to continuing to press the UK Government on this issue until a resolution can be reached. Page 43

Recommendation 22. The Minister should commit to implementing the recommendation made in the Jofeh Report in relation to Home Log Books/Building Renovation Passports (BRPs). In doing so, she should explore the evidence received by this Committee that, working with the private sector, BRPs could be made available to homeowners at no cost. Page 43

Recommendation 23. The Minister should explain whether and how the Welsh Government's strategy for engaging the general public in action on climate change will deliver direct action to raise public awareness of the need to reduce the climate impact of Wales' homes. Page 43

Recommendation 24. The Minister should ensure that the Housing Net Zero Carbon performance Hwb is available to all tenures as soon as it is established.
..... Page 43

Recommendation 25. The Minister should explain how she intends to raise awareness of the Housing Net Zero Carbon performance Hwb among stakeholders and property owners with a view to ensuring they can take full advantage of the advice and support services on offer..... Page 44

Recommendation 26. The Welsh Government must publish its Net Zero Skills Action Plan no later than March 2023. If it is not in a position to do so, we expect the Welsh Government to explain the reason in responding to this report.
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Recommendation 27. The Minister, working with the Minister for Finance and Local Government, should assess the feasibility of using Council Tax and Land Transaction Tax to incentivise energy efficiency retrofit as a priority. The Minister must report back to this Committee on progress no later than six months after the publication of this report and every six months thereafter until this work is completed..... Page 57

Recommendation 28. The Minister should accelerate work to develop proposals for the following financial solutions for the ‘able to pay’ sector: PACE/PLF; zero/low interest loans; and equity release loans. She should report back to this Committee on progress no later than six months after the publication of this report and every six months thereafter until this work is completed..... Page 57

Recommendation 29. The Minister should provide further details of the “hybrid funding offer” arising from the work of the Development Bank of Wales and Nesta. This should include a target date for roll out across the sector..... Page 57

1. Introduction

1. At the start of the Sixth Senedd, the Committee agreed to undertake a multi-phase inquiry into the decarbonisation of Wales' housing.
2. During the first phase of our inquiry, we looked at progress made towards housing retrofit across tenures. As a reference point, we used the recommendations made by the Decarbonisation of Homes in Wales Advisory Group in its report **Better Homes, Better Wales, Better World** (July 2019). We aimed to identify priority areas to consider in more detail during phase two of our inquiry.
3. Informed by **evidence** from a range of stakeholders, we identified the following priorities for phase two: financing retrofit, developing skills and the supply chain, and privately-owned homes. We agreed to begin with an inquiry on the latter.

Terms of reference

4. The terms of reference for our work were:

To consider -

- 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;
- the role of sector-specific retrofit targets to help drive change;
- actions the Welsh Government should take to progress a programme of retrofit for these sectors in the short, medium and long term;
- 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;
- 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;
- how effective the Welsh Government is in influencing decisions on reserved matters to support the decarbonisation of these sectors.

Our approach

5. We held a public consultation during the summer of 2022 and received **33 written submissions**.

6. We held oral evidence sessions with a range of stakeholders at our meetings on 5 and 20 October 2022. We also took evidence from the Minister and the Deputy Minister for Climate Change at our meeting on 7 December 2022. A schedule of oral evidence sessions can be found at Annex 1.

7. We commissioned Senedd Cymru's Citizen Engagement Team to conduct interviews with private landlords and homeowners on our behalf. The **findings from the engagement work** have helped inform this report.

8. We would like to thank all those who have contributed to our work.

2. The verdict on progress so far

9. Wales' 1.4 million homes account for 11% of its overall carbon emissions. More than 90% of existing homes are predicted to remain in use by 2050. If Wales is to meet its carbon emission reduction targets, these homes will need to be retrofitted to improve energy efficiency and enable the switch to low-carbon heating.

10. The condition of the existing housing stock, the prevalence of older homes, poor energy efficiency, and high levels of fuel poverty means this is a huge challenge – none more so than for the privately-owned sector, which makes up over 80% of the total housing stock.

2017 – Welsh Government acknowledges need to increase retrofit activity

11. In its November 2017 **statement**, the Welsh Government acknowledged the need to increase the scale and rate of residential energy efficiency retrofit, including in the privately-owned sector, as part of its approach to decarbonising Wales' homes. It committed to improving its evidence base to better target activity and spending beyond 2020, and to better understand how to motivate and stimulate the 'able to pay' sector to take action.

2018 – Welsh Government commissions analysis from the Welsh School of Architecture

12. In March 2018, the Welsh Government commissioned the Welsh School of Architecture (WSA) to identify 'what works' in relation to housing decarbonisation using case studies and published literature, and to understand the degree to which the nature of the existing Welsh housing stock could inform the development of a pathway to decarbonisation. The **WSA's reports** were published in October 2018 and July 2019 respectively.¹

2018 – Welsh Government establishes the Decarbonisation of Homes in Wales Advisory Group

13. In the spring of 2018, the Welsh Government established the Decarbonisation of Homes in Wales Advisory Group ('the Advisory Group'), chaired by Chris Jofeh, to advise on how to decarbonise the existing housing stock. In July 2019, the Advisory Group published its report **Better Homes, Better Wales, Better**

¹ In 2020, the Welsh School of Architecture published a **third report**, focused on decarbonising social housing.

World ('the Jofeh Report'), which included seven 'high-level' recommendations and 24 accompanying actions.

14. In **responding** to the Jofeh Report, the then Minister for Local Government and Housing, Julie James MS, said it "contains few surprises about the action we need to take, the urgency, the scale and the costs, but it makes for very sobering reading". She added, "We cannot wait until we have all the answers or until we have the resources ... What we do know is that inaction carries much bigger risks. So, despite all the risks and uncertainties, I have decided to accept all the recommendations in the report in principle".

2020 - Welsh Government launches 'Optimised Retrofit Programme'

15. In August 2020, the Welsh Government launched the '**Optimised Retrofit Programme**' ('ORP'), aimed at the social housing sector, to "test a new approach to decarbonising Welsh homes, based on the recommendations of the Jofeh Report".² According to the Welsh Government, learning from the ORP will provide "a firm evidence base on which to develop a longer-term retrofit strategy".³

What stakeholders told us about progress

16. There was widespread consensus among stakeholders that the Welsh Government's approach to decarbonising the privately-owned sector has, to date, been insufficient and ineffective. Stakeholders highlighted that, despite privately-owned homes making up the majority of Wales' housing stock, the Welsh Government has chosen to focus its effort almost exclusively on social housing through the ORP. There was a sense that this has come at the expense of progress in the privately-owned sector, with little or no work undertaken to prepare the sector to decarbonise.

17. CIH summed up the feeling among stakeholders, stating, "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".⁴

² Welsh Government's [Written Statement: The Optimised Retrofit Programme 2020-21](#), November 2020

³ Welsh Government's [Net Zero Wales Carbon Budget 2 \(2021-25\)](#), October 2022

⁴ Written evidence, DHP2 07

18. Stakeholders expressed disappointment about the lack of PRS involvement in the ORP to date. Chris Jofeh said involvement of the PRS in ORP 2⁵ “was discussed, but the idea was dropped”. At the time the Committee took written evidence to inform its work, details of ORP 3 were not available. However, in October 2022, the Welsh Government published **Guidance on ORP 3**, which outlines its intention to “incrementally extend our optimised retrofit approach beyond social homes, to the private rented sector and eventually owner-occupied homes as ORP 3 progresses”. Chris Jofeh told the Committee, “Welsh Government was urged to include private landlords in ORP 3 and, again, didn’t. It’s a big missed opportunity”.⁶

19. It came across strongly in evidence that the Welsh Government cannot afford to wait until the outcome of the ORP to take action in the privately-owned sector. Chris Jofeh said, “there’s so much that we could be getting on with now in parallel with ORP so that we’ve prepared the ground for the private sector, and the lessons can then be applied”.⁷ Dr Donal Brown expressed a similar view. He stated:

“...let’s not make the perfect the enemy of the good...We don’t have to have all of the parts fixed and ready, but let’s start talking this up and actually get going with it. We don’t have to have worked out everything behind the scenes before we can actually start doing stuff...we don’t have time for ‘wait and see’ ... there’s a lot we can be getting on with, particularly around the message, particularly around the conversation with the nation.”⁸

Lack of a clear strategy is holding back progress

20. While stakeholders acknowledged the commitments made in Net Zero Wales⁹, they emphasised the need for a long-term strategy and/or plan for decarbonising the housing sector, not least to send a clear signal to consumers and the industry about the direction of travel. This would help drive market behaviour.

⁵ The Optimised Retrofit Programme is a multi-phase programme. Phase 1 of the ORP (ORP 1) ran from 2020-21 (ORP 1) and Phase 2 (ORP 2) from 2021-22. The ORP is currently in Phase 3 (ORP 3), which runs from 2022-23.

⁶ RoP, paragraph 52, 5 October 2022

⁷ RoP, paragraph 46, 5 October 2022

⁸ RoP, paragraph 50, 5 October 2022

⁹ Net Zero Wales Carbon Budget 2 (2021-25) sets out the Welsh Government’s vision, ambitions statements and policies (Policies 43-50) and proposals (Proposals 5-8) in relation to housing decarbonisation.

21. Chris Jofeh said, “we definitely do need an overarching strategy that is comprehensive and long-lasting. It needs to be agreed on a cross-party basis, I think; it needs to endure and people need to trust that it will endure”.¹⁰ Dr Donal Brown echoed this. He told the Committee:

“I think the question you get asked a lot is, ‘What is the one thing we need to do?’ ... I suppose if there was one message, it is that long-term plan, providing certainty to the public and providing certainty to industry that this is the direction of travel. We have to transform our housing stock, we have a relatively small amount of time to do that, and therefore Government needs to be making the right signals and putting in long-term permanent changes...”¹¹

22. UKGBC, Robert Chapman (Independent, Strategic Property Adviser and Regeneration Practitioner), the Housing Expert Panel and CIH called for a ‘National Retrofit Strategy’. However, Andy Regan (Nesta) questioned whether a new, long-term strategy is necessary. He believed that, between them, the Advisory Group’s report, the ORP, and the Welsh Government’s proposed heat strategy provide “all the building blocks”.¹² He said he would rather see “a shift to implementation” than time spent on developing a strategy.¹³

23. In its **response to the Equality and Social Justice Committee’s report, Fuel Poverty and the Warm Homes Programme** (July 2022), the Welsh Government said it is “developing a comprehensive strategy and delivery plan [for decarbonisation] that incorporates work across housing tenures”. The evidence we received from stakeholders, including those who work closely with the Welsh Government, suggests they were unaware of work to develop these.

The role of targets in driving change

24. The Advisory Group recommended all homes in Wales should be brought up to EPC Band A by 2050, although it recognised this would be unachievable for some homes. It is this overarching target that the Welsh Government is working towards for the privately-owned sector.

25. RICS said, “Wales lacks a decisive political target for decarbonisation of private housing. Net Zero Wales sets out an ambitious programme of activity in

¹⁰ RoP, paragraph 7, 5 October 2022

¹¹ RoP, paragraph 9, 5 October 2022

¹² RoP, paragraph 217, 5 October 2022

¹³ RoP, paragraph 217, 5 October 2022

the residential sector, but actual targets for retrofitting and energy performance [are] reserved for the social housing sector and new builds”.¹⁴ In their report, **Homes Fit for the Future: The Retrofit Challenge** (July 2021), the Future Generations Commissioner (FGC) and New Economics Foundation said “1.1 million (or 70%) of Wales’ housing stock falls under the owner-occupied or private rented sectors which currently lack (or have very weak) targets”.

26. There was broad consensus that targets are needed to help drive change within the privately-owned sector. Chris Jofeh said the Welsh Government should set “explicit long-term mandatory targets, in a way that is recognised by buyers, with failure to comply preventing further transactions (sale or renting) of the property”.¹⁵

27. The FGC and New Economics Foundation proposed an interim EPC ‘C’ (or equivalent) target for all homes by 2030, including those in private ownership. They also favoured mandatory/statutory targets, enforced by MEES.

28. Sero was supportive of sector-specific targets, subject to certain qualifications, including that the underlying metric used is not tenure-specific and that target success metrics for decarbonisation align across all tenures/sectors, even if target timescales do not. It said sector-specific targets “provide an opportunity to accelerate the scale up of home retrofits, and in doing so enable the supply chain to become familiar with the retrofit measures required”.¹⁶

29. Gavin Dick, NRLA, cautioned against sector-specific targets because a “different target in different tenures creates more confusion. And I think if we’re trying to get to the same goal, having the same targets across all tenures makes it a lot easier because properties can change tenure, very simply”.¹⁷

30. CIH said targets could function “as the stick through which to move different tenures to different positions along the timeline to 2050”. However, without a long-term strategy and suitable delivery mechanisms, introducing targets is “a meaningless exercise”.¹⁸ Similar views were expressed by UK Finance, NRLA and Propertymark.

¹⁴ Written evidence, DH2P 28

¹⁵ Written evidence, DH2P 5

¹⁶ Written evidence, DH2P 15

¹⁷ RoP, paragraph 217, 20 October 2022

¹⁸ Written evidence, DH2P 7

Evidence from the Minister

31. In her [letter to the Committee](#), dated April 2022, the Minister explained the Welsh Government is focusing efforts on the social housing sector as this is where it has the “most ability to set direction and influence”. She said, “channelling ORP investment through social landlords supports a ‘testing and learning’ approach to decarbonising homes”, which will “provide the springboard to rapidly start the decarbonising of homes in other tenures by 2023”.

32. The Minister explained, “the current position of less activity in the private rented sector and owner-occupied sector reflects the approach of starting in social housing before moving to other tenures”. She also explained:

*“we’ve begun to take action with privately owned homes, but not at the scale of the social sector yet, because we’re just not ready. The workforce supply chains are not ready yet to do that. But, I’m absolutely confident that the steps we are taking into the privately owned spheres are the right ones and that we’re starting from the right place to be able to do this in a coherent, programme sort of way”.*¹⁹

33. The Minister told the Committee “ORP 3 is actively stressing the commitment for local authorities and social landlords to support [mixed tenure] intervention, and, as a result, we’ve got grant applications that combine social and owner-occupier projects from around Wales”.²⁰ She asserted, “we deliberately started in the social rented sector ... to get the learning of ORP up and running and properly accounted for, and ... we’re working on the levers for the private rented sector”.²¹

34. The Minister and her officials provided a summary of the learning from the ORP to date. She told the Committee, “we’ve got the pathways in place, we’ll have the [Wales Net Zero Performance Hwb] in place, we’ve got the evaluation in place. So, we’re well on the road to being able to implement [learning from the ORP]”.²²

35. When asked to clarify whether she intends to publish a comprehensive housing decarbonisation strategy (as suggested in the Welsh Government’s response to the ESJ Committee report), the Minister told the Committee:

¹⁹ RoP, paragraph 203, 7 December 2022

²⁰ RoP, paragraph 283, 7 December 2022

²¹ RoP, paragraph 269, 7 December 2022

²² RoP, paragraph 272, 7 December 2022

“While we have an overarching strategic intent articulated in our Net Zero Wales Carbon Budget 2 (2021-25) which sets out our vision, our ambition statements and our policies and proposals (Policies 43-50 and Proposals 5-8), we recognise that further detail and a route map for implementation are needed.

While we intend to develop a comprehensive delivery plan that incorporates work across tenures other than social housing; we are committed to that plan being rooted in evidence of what works in decarbonisation. One which is based on learning the lessons of both ORP and other schemes such as IHP and the Warm Homes Programme.”²³

36. She added, work on the delivery plan “is at the scoping stage with my officials, where they are exploring how best to develop the route map for decarbonisation, balancing this need with the range of expectations around delivering of programmes, such as the Optimised Retrofit Programme, and the expansion into the PRS via alignment of ORP with our Leasing Homes Scheme”. The Minister also said officials will be working with the Decarbonisation Implementation Group (chaired by Chris Jofeh) to “pull together a further group of stakeholders to discuss priorities for the route map in the early part of 2023”. She committed to sharing timelines and a target publication schedule with the Committee once they are finalised.²⁴

Our view

Since the introduction of statutory climate change targets over a decade ago, there has been extensive research, analysis and insight from a wide range of experts looking at how to reduce carbon emissions from our existing homes. In Wales, the Jofeh Report provided the Welsh Government with a firm foundation on which to build its approach. While some progress has been made towards the implementation of the Report’s recommendations, it has mainly been limited to the social housing sector. There was a strong sense from stakeholders that the privately-owned sector is simply being left behind.

²³ Letter from the Minister for Climate Change to the Climate Change, Environment and Infrastructure Committee, 10 November 2022

²⁴ Letter from the Minister for Climate Change to the Climate Change, Environment and Infrastructure Committee, 10 November 2022

A comprehensive, long-term plan with key policy milestones and targets

Reducing the climate impact of Wales' 1.1 million privately-owned homes is, undoubtedly, an immense challenge, with a range of financial and non-financial barriers needing to be overcome. But, it is a challenge that this Welsh Government must now rise to, and it cannot afford to wait any longer to act.

The Welsh Government needs to provide stronger strategic direction to help drive progress in the privately-owned sector. In the absence of a long-term housing decarbonisation strategy, and with firm policies and programmes to support the sector to decarbonise yet to be brought forward from the Welsh Government, industry and property owners are left struggling to know whether to act, and how and when they can best play their part. The Welsh Government must address this as a priority.

Despite informing the ESJ Committee the Welsh Government is developing "a comprehensive strategy and delivery plan", the Minister's evidence to us suggests this may not be the case and that only a plan is being developed. If the Minister does not intend to develop and publish a strategy, she should explain the change in position since her response to the ESJ Committee's report.

We note the Minister's commitment to publish a delivery plan for the implementation of policies and proposals for decarbonising the sector set out in Net Zero Wales. This could, potentially, help improve transparency and facilitate and support scrutiny. We expect the plan to include key milestones and interim targets for the privately-owned sector.

We note that the plan will be informed by the learning from the Optimised Retrofit Programme, which will run until at least 2025. This suggests the plan may still be some way off, which is of concern given the need to increase the scale and pace of retrofit activity within the sector. We expect the Minister to report back to us on progress towards the development of the plan no later than six months after the publication of this report, and to commit to providing progress reports every six months thereafter.

The Optimised Retrofit Programme

Since the publication of the Jofeh Report, the Welsh Government's attention has been focused on developing its optimised retrofit approach to decarbonising in the social housing sector. While we acknowledge the rationale for this, it came across strongly in evidence that there are actions the Welsh

Government can and should be taking now to prepare to decarbonise Wales' remaining 1.1 million homes. We explore these in later chapters.

From what we know of the ORP, it is, in many respects, exemplary and has the potential to help support other tenures to decarbonise. However, there is limited information available about the lessons learnt from the programme to date. There is a clear appetite among stakeholders not directly involved in the ORP to better understand the lessons learnt so they can begin to put them into practice. To address this, the Welsh Government should publish an interim report on learning from the earlier phases of the programme as soon as possible.

We are disappointed the Minister chose not to include the private rented sector in Phase 3 of the ORP from the outset, as called for by stakeholders. We note the intention "to incrementally extend [the] optimised retrofit approach to the private rented sector and owner-occupied homes as ORP 3 progresses". We seek clarification from the Minister about how and when this will be taken forward.

Recommendation 1. The Welsh Government must provide clearer and stronger strategic direction to the industry and other actors to help drive progress towards decarbonising Wales' existing homes.

Recommendation 2. If the Minister does not intend to develop and publish a comprehensive housing decarbonisation strategy, she should explain the change in position since her response to the ESJ Committee's report.

Recommendation 3. The Welsh Government's delivery plan for housing decarbonisation must include key milestones and interim targets for the privately-owned sector.

Recommendation 4. The Minister should report back to this Committee on progress towards the development of the delivery plan no later than six months after the publication of this report. She should also commit to providing progress reports every six months thereafter.

Recommendation 5. The Minister must publish an interim report on findings of the Optimised Retrofit Programme to date.

Recommendation 6. The Minister should explain why she chose not to involve the private rented sector from the beginning of Phase 3 of the Optimised Retrofit Programme. She must also explain how and when the optimised retrofit approach will be "incrementally extended" to private rented sector and owner-occupied homes.

3. Making the most of existing energy efficiency schemes?

37. Energy efficiency schemes have a crucial role to play in reducing carbon emissions from our housing. More energy efficient homes produce less emissions - by reducing energy demand we reduce the amount of fossil fuels burned to generate energy.

38. Stakeholders referred to several schemes that support energy efficiency measures in the privately-owned sector, including the **Warm Homes Programme**, the **Energy Company Obligation (ECO) scheme**, and the **Boiler Upgrade Scheme**.

39. There was broad consensus that existing support is fragmented. Dr Donal Brown said, “looking at the Warm Homes Programme and energy efficiency funding in general, there is a sort of fragmentation going on. There are different pots of money serving different purposes and, actually, there’s a lack of bringing these funding sources together in an integrated way to solve problems for people. There tends to be a kind of scattergun approach”. Similar views were expressed by the Housing Experts Panel and CIH.

Warm Homes Programme

40. Since its establishment, the Warm Homes Programme²⁵ (WHP) has been subject to considerable scrutiny, including from Audit Wales²⁶, the Fifth Senedd’s Climate Change, Environment and Rural Affairs Committee²⁷ and the Sixth Senedd’s Equality and Social Justice Committee²⁸. While significant investment has been made throughout the lifetime of the WHP, it has been criticised for failing to deliver at scale and pace. Specific criticisms include: barriers to access for the private rented sector, restrictive eligibility criteria, arbitrary cost caps, and lack of alignment with the Welsh Government’s decarbonisation priorities. These criticisms were repeated by stakeholders in their evidence to us.

²⁵ The Welsh Government’s Warm Homes Programme (WHP) is its key mechanism for tackling fuel poverty, providing free home energy efficiency measures for low-income and vulnerable households living in fuel poverty and free and impartial advice to all households. The WHP comprises two schemes – Nest and Arbed, although Arbed ended in November 2021. The current Nest scheme is due to end in March 2023.

²⁶ [The Welsh Government’s Warm Homes Programme](#) (November 2021), Audit Wales

²⁷ [Fuel Poverty in Wales](#) (April 2020), Fifth Senedd’s Climate Change, Environment and Rural Affairs Committee

²⁸ [Fuel Poverty and the Warm Homes Programme](#) (March 2022), Equality and Social Justice Committee

41. Sero summed up the general feeling among stakeholders, stating:

“Whilst Wales’ [Nest and Arbed] schemes have largely been commendable in their intent to tackle those at greatest risk of [fuel] poverty, the schemes overall have not delivered at the scale that is urgently required or with the genuine impact on measured carbon emission reductions. Furthermore, with limited coordination between all the Welsh and UK government initiatives, there has been significant opportunity for confusion.

In short, there is much opportunity for Wales to provide an enlarged, coordinated, and clearer programme in the future, building from valuable lessons learnt from past efforts.”²⁹

42. In December 2021, the Welsh Government consulted on proposals for the next iteration of the WHP.

Energy Company Obligation

43. The Energy Company Obligation (ECO) is a GB wide scheme to help reduce carbon emissions and tackle fuel poverty. Under ECO, medium and larger energy suppliers fund the installation of energy efficiency measures for low-income households.

44. The current scheme, ECO4, is worth £4bn over the next four years. The scheme provides a route for participating local authorities to refer households for support (known as ‘ECO4 Flex’). For the first time, the Welsh Government (and Scottish Government) will be able to participate in the scheme and make referrals.

45. Stakeholders reported that, to date, uptake of ECO funding in Wales has been low. NRLA raised concern that authorities are not engaging with the scheme effectively due to a lack of capacity and resource. These issues were highlighted by the Committee’s predecessor in the Fifth Senedd.³⁰

46. Energy Saving Trust (EST) said the Welsh Government is in discussions with BEIS about whether the Welsh Government can distribute Wales’ share of ECO funding. EST added, if this does not prove possible, “local authorities must be

²⁹ Written evidence, DH2P 15

³⁰ Fuel Poverty in Wales (April 2020), Fifth Senedd’s Climate Change, Environment and Rural Affairs Committee

given the support needed to access ECO effectively”.³¹ It highlighted the Scottish Government’s approach as good practice, where an ECO manager has helped increase Scotland’s share of ECO funding by working with authorities to support their bids.

47. Chris Jofeh suggested the Welsh Government could utilise UCL Energy Institute’s all-Wales building stock model³² to identify households eligible for ECO funding.

Boiler Upgrade Scheme

48. The UK Government’s **Boiler Upgrade Scheme** (BUS) provides grant funding to eligible households to cover part of the cost of replacing fossil fuel heating systems with a heat pump or biomass boiler.

49. Nesta emphasised the importance of ensuring Wales does not miss out on funding from the BUS relative to Scotland and England (as has been argued in relation to ECO funding) and suggested the Welsh Government has a role to play in supporting households to apply to the scheme.

50. Nesta told the Committee, “we believe between a quarter and a third of Welsh homes might be ready to have a heat pump installed without any upfront fabric retrofit”. It said there is a “a clear policy gap in Wales for a targeted approach to increasing heat pump adoption in well-insulated private homes” and called for this to be addressed in the forthcoming Heat Strategy.³³

51. Several stakeholders referred to barriers within Wales’ planning system to heat-pump uptake. Current planning guidance forbids the installation of an Air Source Heat Pump (ASHP) within 3m of the boundary of a property (compared to 1m in England). Chris Jofeh called for the Welsh Government to “urgently revise its planning guidance to allow ASHPs much closer to a property boundary, or an openable window, provided the appropriate acoustic criteria are met”.³⁴ Nesta and RICS echoed this.

Evidence from the Minister

52. In a **statement** to Plenary on 8 November 2022, the Minister confirmed her intention to bring forward a national demand led scheme focused on homes in

³¹ Written evidence, DH2P 25

³² A building stock model is a computer-based ‘digital twin’ of all the buildings in an area.

³³ Written evidence, DH2P 32

³⁴ Written evidence, DH2P 5

fuel poverty to replace the current Nest scheme. She said the replacement scheme will have “a greater focus on decarbonisation”.

53. When asked to clarify when the replacement scheme would be launched, the Minister told the Committee, “before next winter”.³⁵

54. In her **letter to the ESJ Committee**, dated 1 December 2023, the Minister for Social Justice referred to “the development of a whole housing stock approach to decarbonisation, providing a long-term approach for energy efficiency, fuel poverty and decarbonisation of housing”. She said:

“It will help meet the needs of the current and future carbon budgets, whilst also integrating with broader housing objectives. The new programme is expected to support the social, owner occupier and private rented sectors. It is expected to be accessible to all, including those in the ‘able to pay’ category, but include emphasis on funding worst homes first, including those in fuel poverty.

The approach will be developed through the learning from the Warm Homes and Optimised Retrofit programmes and aligned to other Welsh Government approaches such as the Welsh Housing Quality Standard and Local Area Energy Planning.

Work can begin immediately with the evolution of existing mechanisms to create an integrated approach to transition to the new programme, aligned with the next budget settlement.”

55. On the issue of ECO funding, the Minister told the Committee the Welsh Government is working with local government, and others, “to develop an approach that maximises the participation of local authorities in ECO4 and makes it attractive for the energy suppliers at the same time”. She added:

“There’s a collaborative approach being developed to set the qualifying criteria, encourage greater participation and maximise opportunities for lower income households who are most in need of support. That includes the development of a template Welsh ECO Flex statement of intent, as it’s called, to

³⁵ RoP, paragraph 216, 7 December 2022

*help local authorities to align national and local requirements to the ECO Flex scheme.*³⁶

Our view

WHP and beyond

The ESJ Committee's report, **Fuel Poverty and the Warm Homes Programme** (May 2022), makes a series of recommendations to inform the next iteration of the programme. Given this, we have chosen not to cover the WHP in any detail. The verdict is very much out on the potential contribution the replacement scheme will make to the decarbonising Wales' privately-owned homes.

The Welsh Government's response to the consultation on the next iteration of the WHP was due to be published after summer 2022. At the time of writing this report, it is still not available. We are deeply frustrated by the ongoing delay in publication, which does not bode well for the timely launch of the Nest replacement scheme. We expect the response to be published no later than March 2023. It must provide further details of the replacement scheme, including eligibility criteria, cost caps and energy efficiency retrofit measures.

The current Nest scheme will come to an end next month (March 2023), with the replacement scheme due to be launched "before next winter". It is unclear whether and how the Minister intends to plug the gap in provision during this period. We expect her to address this issue. Furthermore, given the current fuel poverty crisis and the need to ramp up retrofit activity, we believe the Welsh Government should bring forward the launch of the replacement scheme.

As mentioned, the Minister's letter to the ESJ Committee referred to the development of a new programme to support housing decarbonisation, which is expected to be accessible to all, including those in the 'able to pay' sector. This is a significant development. We are surprised the Minister failed to provide details of the programme in her evidence to us, given its relevance to our work. We would welcome further details from the Minister on the proposed new programme, including when it will be launched, how it will support the 'able to pay' sector, and indicative investment for the programme's delivery over the next three years.

³⁶ RoP, paragraph 285, 7 December 2022

ECO funding

In its report, Fuel poverty in Wales (April 2020), our predecessor committee called for the Welsh Government to establish a suitable support mechanism to ensure local authorities are able to take full advantage of ECO funding. Despite this, we heard that the ECO scheme is still underutilised in Wales. This is disappointing.

The Minister told us work is now underway to develop a “collaborative approach” with authorities to maximise their participation in the ECO scheme.

Encouraging though this may be, we question why it has taken the Welsh Government so long to act. We expect the Minister to monitor the impact of this work on the level of ECO funding for Wales.

We heard the all-Wales building stock model could be a useful tool to identify households eligible for ECO funding. We expect the Minister to explore this matter with UCL Energy Institute and report back to the Committee on the outcome.

BUS

While not without criticism, the UK Government’s BUS offers an important source of funding for those in the ‘able to pay’ sector whose properties are ‘heat pump ready’ to meet the upfront cost of installation. It is unclear whether and how the Welsh Government is promoting the BUS. The Minister should address this issue.

Heat pumps are likely to become a mainstream technology over the next decade. However, current planning policy may be creating barriers to installation in Wales. We believe the Minister should review the Welsh Government’s guidance on planning permission for heat pumps with a view to addressing these.

Recommendation 7. The Welsh Government must publish its response to the consultation on the next iteration of the Warm Homes Programme no later than March 2023. If the Welsh Government is not in a position to do so, we expect it to explain the reason in responding to this report.

Recommendation 8. The Welsh Government’s response to its consultation on the next iteration of the Warm Homes Programme must provide further details of the Nest replacement scheme, including eligibility criteria, cost caps and energy efficiency retrofit measures.

Recommendation 9. The Welsh Government should explain how it intends to address gaps in provision following the end of the current Nest scheme and the launch of its replacement. The Welsh Government must accelerate work on the replacement scheme so that it can be launched by end of summer 2023 at the latest.

Recommendation 10. The Minister should provide a detailed explanation of the proposed new programme to support housing decarbonisation (referred to in her letter to the ESJ Committee), including when it will be launched, how it will support the 'able to pay' sector, and the level of investment that will be made available for delivery of the programme over the next three years.

Recommendation 11. The Minister should commit to monitoring the impact of the "collaborative approach" to ECO4 on local authority participation in the scheme and on the level of ECO funding for Wales.

Recommendation 12. The Minister should explore with UCL Energy Institute the potential for using its all-Wales building stock model as a means of identify households eligible for ECO funding and for any future grant funding to support energy efficiency retrofit. She should report back to the Committee on the outcome as soon as practicable.

Recommendation 13. The Minister should clarify whether and how the Welsh Government is promoting the UK Government's Boiler Upgrade Scheme among homeowners in Wales.

Recommendation 14. The Minister should review the Welsh Government's guidance on planning permission for heat pumps with a view to relaxing the requirement that no part of the heat pump can be installed within three metres of a property's boundary, in line with England.

4. A regulatory approach to scaling up energy efficiency activity

56. Long-term regulatory standards will be required to scale up energy efficiency retrofit activity in the privately-owned sector. Regulatory standards, known as Minimum Energy Efficiency Standards (MEES), are already in place in the private rented sector.³⁷ They are set by the UK Government as energy remains a reserved area of policy. There are no equivalent standards for the owner-occupier sector.

Increasing standards in the private rented sector

57. In September 2020, the UK Government **consulted on increasing standards in the PRS**. Its preferred option is to raise the energy performance standard to an EPC rating of C, with a phased trajectory for achieving the improvements for new tenancies from 2025 and all tenancies from 2028. This would be accompanied by an increase of the cost cap to £10,000.

58. The majority of stakeholders welcomed the UK Government's proposal to increase standards as an essential step towards decarbonising the sector and tackling fuel poverty. They expressed frustration that the UK Government has yet to announce the outcome of its consultation. CIH said, if the UK Government is unwilling to act, the Welsh Government should "explore implementation of higher MEES in Wales only".³⁸ Generation Rent suggested that meeting MEES should be incorporated into Wales' statutory landlord registration and licensing scheme.³⁹

59. While UK Finance supported the principle of improving standards in the PRS, it questioned whether the proposed 2025 target would be achievable. It cited existing supply chain constraints, skills shortages, lack of awareness among tenants and landlords, and cost of upgrades as potential barriers.

60. NRLA said MEES is "ineffective, especially in Wales", given the prevalence of older properties, which cost more to upgrade. It asserted that, even with the

³⁷ Under the current PRS MEES Regulations, private landlords must not renew existing tenancies or grant new tenancies if the property has less than an EPC rating of E. After 1 April 2023, landlords must not continue to let properties which have an EPC rating of below E. Landlords of F and G rated homes are required to invest, or co-invest, in improving the energy performance of their properties to EPC Band E, if third-party funding is unavailable or insufficient. The landlord spend requirement is capped at £3,500 inclusive of VAT (known as 'the cost cap').

³⁸ Written evidence, DH2P 7

³⁹ Written evidence, DH2P 24

proposed £10,000 cost cap, some properties may be unable to meet the required standard.⁴⁰

Cost cap

61. According to NRLA, the proposed cost cap “could represent a significant proportion of the value of the average property” and would be “uneconomical” for many landlords in Wales. It warned that setting the cost cap too high will “drive landlords out of the market”.⁴¹

62. NRLA called for landlords’ contribution to upgrading properties to be linked to the average market rents in any given area (known as Broad Rental Market Areas). Under NRLA’s proposals, “landlords would need to contribute a minimum of £5,000, whilst landlords renting properties in rental market areas with higher average rents would need to contribute more, gradually tapering to £10,000”.⁴²

Impact on rental market

63. Several stakeholders, including CIH, the Housing Experts Panel and Chris Jofeh warned of a shrinking in the PRS market linked to increased regulations, and the need to mitigate this. NRLA told the Committee:

“Our ultimate concern is that requirements to upgrade properties without additional support make remaining a landlord unsustainable as a business model, especially for most landlords who only receive a small amount of income in rent each year and only own one or two properties. This could lead to landlords leaving the market, reducing supply whilst demand is high and leading to fewer properties being upgraded.”⁴³

64. The Housing Experts Panel said, “an additional legislative requirement placed on PRS landlords to achieve decarbonisation targets over and above those currently seen in MEES could have a significant detrimental impact on stock availability”.⁴⁴ Chris Jofeh suggested the Welsh Government’s Leasing Scheme Wales could provide a potential solution.

⁴⁰ Written evidence, DH2P 6

⁴¹ Written evidence, DH2P 6

⁴² Written evidence, DH2P 6

⁴³ Written evidence, DH2P 6

⁴⁴ Written evidence, DH2P 27

65. Matthew Judd, UK Finance, reported early indications that “more savvy landlords, particularly those who are more professional and have larger portfolios, are looking to exit the more energy inefficient properties and moving to more energy efficient properties”.⁴⁵ Paul Broadhead (BSA) said this “then creates its own challenge”, as poor performing stock becomes more available to first-time buyers who are less able to meet the cost of improvements.⁴⁶

66. Generation Rent suggested the Welsh Government could “set aside public funds to purchase private rented homes at EPC Band D or below that are listed for sale, invest in retrofitting them and make them available as social housing”.⁴⁷

Compliance and enforcement

67. There were reports of a lack of awareness among landlords of MEES. Sero expressed frustration that a significant number of landlords “still demonstrate no knowledge” of MEES. Representatives of the PRS refuted this suggestion.

68. According to stakeholders, local authorities are not enforcing MEES effectively, primarily due to a lack of capacity and resource. The Housing Experts Panel said authorities are using their enforcement powers “inconsistently and infrequently”.⁴⁸ CIH said “there is significant evidence that the MEES are currently poorly enforced”. It emphasised the need “to resource and enforce the existing MEES regulations, before they are strengthened”.⁴⁹

69. Energy Saving Trust (EST) reported three Welsh authorities had received funding from the UK Government to establish dedicated MEES enforcement teams, leading to proactive engagement with landlords on changes in standards, and offers of support and assistance.

70. Several stakeholders referred to a potentially enhanced role for Rent Wales Smart in MEES compliance and enforcement. EST said Rent Smart Wales “is well positioned to oversee this ratcheting of standards alongside local authorities but must be supported to do so”.⁵⁰ CIH suggested Rent Smart Wales should have a specific role in supporting MEES enforcement and coordinating between different local authority departments such as Environmental Health and Trading Standards, to target underperforming properties. It called for the development of

⁴⁵ RoP, paragraph 71, 20 October 2022

⁴⁶ RoP, paragraph 74, 20 October 2022

⁴⁷ Written evidence, DH2P 24

⁴⁸ Written evidence, DH2P 27

⁴⁹ Written evidence, DH2P 7

⁵⁰ Written evidence, DH2P 25

“an effective national MEES compliance and enforcement database and tools”, which could be delivered “across Wales for <£1m annually”.⁵¹

71. Country Land and Business Association called for “a change of emphasis ... from enforcement to support” and highlighted difficulties faced by rural landlords in meeting more stringent MEES requirements.⁵²

Introducing standards in the owner-occupier sector

72. There are currently no MEES for the owner-occupier sector across the UK. However, the **Scottish Government** has indicated its intention to consult on proposals for introducing MEES from 2023-2025 onwards. It is envisaged that the standard will be set at a level equivalent to EPC C, with a backstop date of 2033.

73. The UK Government is “exploring opportunities to improve the energy performance of owner-occupier homes”, although it is not clear whether it is considering proposals to introduce MEES.⁵³ In the meantime, it has consulted on introducing mandatory disclosure requirements for mortgage lenders on the energy performance of homes on which they lend, and on setting voluntary improvement targets to be met by 2030.

74. In supporting the introduction of standards for the owner-occupier sector, RICS said “the more regulated the tenure, the higher the performance. Almost 60% of existing social homes in Wales achieve an EPC A-C, driven by strict retrofit and improvement standards, compared to just 20% in a poorly targeted and regulated existing owner-occupier sector”.⁵⁴

75. UKGBC asserted it is “critical” that timelines for MEES for all housing tenures are set. It called for a gradual introduction of regulatory standards for the owner-occupier sector, starting at EPC Band C (or equivalent) at point of sale.⁵⁵ This echoes the CCC’s suggestion in its latest **Progress Report to Parliament** (June 2022).

76. Several stakeholders raised concern that introducing MEES in the owner-occupier sector carries the risk of creating ‘stranded assets’ (also referred to as ‘trapped assets’). BSA explained, “if work to reach a certain EPC level is

⁵¹ Written evidence, DHP2 7

⁵² Written evidence, DHP2 11

⁵³ **HM Government, Heat and Building Strategy, October 2021**

⁵⁴ Written evidence, DHP2 28

⁵⁵ Written evidence, DHP2 26

unaffordable, people may be trapped in a home and may be at risk of negative equity or becoming mortgage prisoners”.⁵⁶

Evidence from the Minister

77. The Minister said the ongoing delay in the announcement by the UK Government of the outcome of the MEES consultation is “a real problem” for the Welsh Government.⁵⁷ She also said, “pressing ahead in Wales, ahead of decisions taken at a UK level, risks pre-empting the results of the consultation, meaning landlords may have to undertake multiple works to meet both requirements”.⁵⁸ The Minister told the Committee she had requested to speak with the Secretary of State for Levelling Up, Housing and Communities as soon as possible on this matter.

78. The Minister told the Committee “the rental market in Wales is really different [to that in England]”, with the majority of landlords only owning one property.⁵⁹ She said, over 60% of rental properties are currently EPC D or E rated, and need between £6,000 and £12,000 to reach EPC C. This would be “a significant financial commitment for most landlords”, equating to “about a year’s rental income”.⁶⁰

79. The Minister emphasised the need “to get the incentives right to get this done in a way that doesn’t contract the private rented sector in a way that will make the homelessness issues that we have across Wales worse”.⁶¹ She said the Welsh Government is currently exploring a project to support private landlords in decarbonising their properties, which she referred to as “a tie in between the Leasing Scheme Wales and Optimised Retrofit Programme”.⁶² She explained that under the proposals homes entering the Leasing Scheme Wales would be eligible for grant funding to improve the energy efficiency of the property.

80. On the issue of enforcing increased MEES, the Minister said, “we expect [the UK Government] to ensure that there are sufficient resources to the local authorities for doing so”.⁶³

⁵⁶ Written evidence, DHP2 13

⁵⁷ RoP, paragraph 258, 7 December 2022

⁵⁸ [Evidence paper from the Minister and Deputy Minister for Climate Change, for the 7 December 2022 meeting](#)

⁵⁹ RoP, paragraph 244, 7 December 2022

⁶⁰ RoP, paragraph 244, 7 December 2022

⁶¹ RoP, paragraph 244, 7 December 2022

⁶² [Evidence paper from the Minister and Deputy Minister for Climate Change, for the 7 December 2022 meeting](#)

⁶³ RoP, paragraph 262, 7 December 2022

81. When asked about the potential for Rent Smart Wales to play an enhanced role in compliance and enforcement of MEES, the Minister said she would be “very happy to look at that, but it’s just important to say that Rent Smart Wales are not an enforcement body; they are a regulatory and licensing body”.⁶⁴ She emphasised that local authorities are responsible for MEES enforcement.

Our view

A combination of incentives and regulatory standards, amongst other things, will be needed to accelerate energy efficiency retrofit in the privately-owned sector. While incentives will go so far, without a suitable regulatory framework property owners are unlikely to act. Although regulatory standards already exist in the private rented sector, they are a long way off from those needed to achieve the overarching target of EPC A rating by 2050.

The setting of MEES remains a matter for UK Government. While the UK Government continues to drag its feet over whether to increase standards in the private rented sector, the sector remains in limbo. This is deeply regrettable.

The Minister’s evidence to us suggests the Welsh Government would not be in favour of using regulatory standards in the privately-owned sector as a means of driving progress. We expect the Minister to clarify the Welsh Government’s position. In the absence of alternative, credible policies, it is unclear how retrofit activity in the sector will be achieved at scale and pace.

The private rented sector plays an important role in helping meet Wales’ housing needs. We expect the Welsh Government to work with the sector to ensure that any increase in MEES does not impact on the availability of affordable, private rental properties. We are encouraged to hear about the proposal to provide grant funding for energy efficiency improvements to landlords who sign up to the Leasing Scheme Wales. Currently, the Scheme is operating on a small scale, with few landlords signed up. It would need to be significantly scaled up in order to deliver the Welsh Government’s wider decarbonisation ambitions for the sector.

Alternative financial solutions must be made available to landlords who choose not to sign up to the Scheme. We explore financial solutions in Chapter 7.

⁶⁴ RoP, paragraph 264, 7 December 2022

To avoid the risk of stranded assets, appropriate financial solutions must also be made available to enable owner-occupiers to meet the upfront costs of energy efficiency improvements. Currently, such solutions do not exist.

Effective compliance and enforcement is key to the success of regulatory standards in driving energy efficiency improvements in the private rented sector. But, local authorities in Wales lack the capacity and resource to deliver this. We acknowledge it is the responsibility of the UK Government to ensure authorities are sufficiently resourced to undertake MEES compliance and enforcement work. However, we believe the Welsh Government has a responsibility to ensure the UK Government fully understands the resource needs of Welsh authorities.

We acknowledge that Rent Smart Wales is not responsible for MEES enforcement. Nevertheless, we believe it is well-placed to support authorities' compliance and enforcement work, for example, by identifying underperforming properties. We are encouraged that the Minister is willing to consider this issue.

Recommendation 15. The Minister should clarify the Welsh Government's position on the use of regulatory standards to increase retrofit activity in the privately-owned sector, including whether it supports the UK Government's proposal to increase MEES in the private rented sector.

Recommendation 16. The Minister should:

- explain when and how the Leasing Scheme Wales will be scaled up to support the Welsh Government's wider decarbonisation ambitions; and
- provide details of the level of investment that will be made available for the Scheme's delivery over the next three years.

Recommendation 17. The Welsh Government must demonstrate leadership and proactively engage UK Government at the highest level to ensure Welsh local authorities' resource needs in relation to MEES compliance and enforcement are fully understood and met.

Recommendation 18. The Minister, in conjunction with Rent Smart Wales and local authorities, should review arrangements for ensuring MEES compliance and enforcement with a view to identifying potential areas for improvement. The review should cover, as a minimum:

- Rent Smart Wales' role in raising awareness of MEES among landlords and in identifying underperforming properties, and
- how information on underperforming properties is shared between organisations to ensure targeted support and/or compliance and enforcement action.

Under embargo until 00.01 hours on Tuesday 28 February 2023

5. Addressing the knowledge and data gaps

Understanding the existing housing stock

82. Stakeholders emphasised the importance of better understanding the existing stock in order to inform the approach to decarbonising the privately-owned sector.

83. Care & Repair Cymru said the Welsh Housing Conditions Survey 2017-18 “was an invaluable source of data” but is now out of date. It added, “for retrofitting initiatives to truly target those that need it most, there must be a data gathering exercise such as the Welsh Housing Conditions Survey to be undertaken at the earliest convenience”.⁶⁵ Propertymark suggested the Welsh Government should consider introducing a Welsh Housing Survey, similar to the **English Housing Survey**.

84. Chris Jofeh identified data collection about the construction of homes and energy consumption of households as “an urgent task”, but one which the Welsh Government has failed to make adequate progress towards.⁶⁶ He said, “we have very, very poor information about 1.4 million homes in Wales. So, the starting place in a long-term approach is to gather data about the homes, assess what is properly needed, what their trajectory should be”.⁶⁷ He suggested the provision of information on the construction of homes could be a requirement of the landlord registration and licensing scheme.

Evidence from the Minister

85. In January 2022, the Minister told the Senedd’s Local Government and Housing Committee, officials would be considering a business case for a future housing survey in 2022. In providing an update to that Committee in September 2022, a Welsh Government official said “that work hasn’t progressed as rapidly as we might have hoped ... but it is still our intention to progress and investigate that”.⁶⁸

Access to smart meter data

86. Several stakeholders highlighted the importance of the Welsh Government gaining access to smart meter data to better understand energy consumption of

⁶⁵ Written evidence, DHP2 9

⁶⁶ Written evidence, DHP2 5

⁶⁷ RoP, paragraph 39, 5 October 2022

⁶⁸ RoP, paragraph 103, 29 September 2022, Local Government and Housing Committee

households and more accurately assess carbon emissions. This data is held by the Data Communications Company and cannot be released without written consent of the bill payer. Dr Donal Brown said issues around smart meter data are “resolvable” but will require effort.⁶⁹ Chris Jofeh told the Committee:

“[His committee] had been urging Welsh Government for years to get together with the Department for Business, Energy and Industrial Strategy and persuade it to allow the Data Communications Company that controls that data to release it to trusted individuals under the right protocols, so that we have the data that we need, that Welsh Government has the data that it really does need, to monitor progress. If we can’t use the smart meter data, we don’t know where we are; any estimate of greenhouse gas emissions from the residential sector is just a guess.”⁷⁰

87. Andy Regan acknowledged the value of smart meter data but said overcoming privacy restrictions “is potentially really problematic”.⁷¹

Evidence from the Minister

88. The Minister said the Welsh Government is working with Cardiff University on the Social Housing Research on Energy from Welsh Data (SHREWD) programme, which is “specifically aimed at requesting access to residents’ smart meter data, aligning that with information via our social landlords asset data, and analysing the combined data”. She said the programme “will provide examples of current processes and barriers to accessing smart meter data”.

89. The Minister also said, she has “committed many times to picking this issue up with colleagues in the UK Government, via discussion with the Department for Business, Energy and Industrial Strategy, for example, and we’ve raised it with Ofgem on a large number of occasions”.

Building Renovation Passports

90. In its July 2019 report, the Advisory Group called on the Welsh Government to fund the creation of and promote a ‘Home Log Book’ (also referred to as a ‘Building Renovation Passport’ or ‘BRP’) for every home to guide energy efficiency

⁶⁹ RoP, paragraph 105, 5 October 2022

⁷⁰ RoP, paragraph 102, 5 October 2022

⁷¹ RoP, paragraph 223, 5 October 2022

decisions and investments. It argued this should be in place for all homes from 2025.

What is a Building Renovation Passport?

A Building Renovation Passport is a document – in electronic or paper format – outlining a long-term (up to 15-20 years) step-by-step renovation roadmap to achieve deep renovation for a specific building. It supports owners with personalised advice on their renovation options and clarifies the renovation stages for all involved parties.⁷²

91. BRP initiatives are being rolled out in a growing number of countries and considerable work has already been undertaken on how to incorporate them into the UK market, for example, Green Finance Institute's report, **Building Renovation Passports: Creating the pathway to zero carbon homes**.

92. There was widespread, cross sector support for the introduction of BRPs, as a means of improving understanding of the existing housing stock and supporting homeowners to make informed decisions about energy efficiency retrofit. However, Andy Regan (Nesta), was not convinced of the need for a BRP for every home. He said, although comprehensive data on the existing housing stock "would be incredibly useful to have ... I don't think it's an essential precondition to taking other steps".⁷³

93. Chris Jofeh expressed frustration at the lack of action by the Welsh Government to implement the Advisory Group's recommendation in relation to BRPs and referred to this as a "serious blocker to progress".⁷⁴

94. Emma Harvey (GFI) said help would be needed "to make [BRPs] a mainstream solution" in the form of additional investment and piloting.⁷⁵ Andy Regan said, "if we see [a BRP for every home] as a vehicle for the private sector, as something that will help people to be confident to take the action, we really need to test that before we go too far down the road, and I say that despite personally thinking it's a very good idea. It needs to be tested with the people who actually have to use it".⁷⁶

⁷² **Building Renovation Passports: Consumer's journey to a better home**, Buildings Performance Institute Europe

⁷³ RoP, paragraph 280, 5 October 2022

⁷⁴ Written evidence, DHP2 5

⁷⁵ RoP, paragraph 33, 20 October 2022

⁷⁶ RoP, paragraph 261, 5 October 2022

95. Andy Regan estimated the cost of providing a BRP for every home at around £275m. He said this is “quite a lot of money to spend upfront and could potentially be better spent on other things”.⁷⁷ However, Chris Jofeh asserted BRPs could be provided “at no cost to the Welsh Government”.⁷⁸

Evidence from the Minister

96. When asked for her views on the use of BRPs, the Minister told the Committee, “land law isn’t devolved to Wales, so I don’t have any power to mandate that all homes have a passport, and trying to get the mandate to do that would take a considerable amount of time and effort. And there’s a cost to the surveyors”.⁷⁹ She emphasised the need “to prioritise our resources, including the professional resources we have, to actual ongoing decarbonisation projects. So, while I think that’s probably a decent long-term aim for a UK Government, I don’t think it’s something that the Welsh Government should be diverting its resources onto at the moment”.⁸⁰

Improving awareness and understanding

97. Sero told the Committee, “from our engagement work, most residents do not realise that their home is likely to be the largest part of their overall carbon footprint. Many are keen to “do their bit” insofar as they feel able, but this lack of awareness means private landlords and owner/occupiers are not aware to begin to consider action”. It added:

“[The Welsh Government] is well placed to put in place a sustained, wide- reaching public information campaign about the drive to Net Zero Carbon across all walks of life. This should include the impact of homes, and the journey that each Welsh home needs to go on in order to help tackle the climate emergency.”⁸¹

98. A similar view was expressed by Propertymark who called for the Welsh Government to undertake a national communications campaign for tenants, landlords and owner-occupiers. It said, “a central part of enabling a retrofit revolution on the path to net zero will be adequately conveying the wider benefits to homeowners and landlords. Aside from helping tackle the climate crisis,

⁷⁷ RoP, paragraph 261, 5 October 2022

⁷⁸ Written evidence, DHP2 5

⁷⁹ RoP, paragraph 251, 7 December 2022

⁸⁰ RoP, paragraph 251, 7 December 2022

⁸¹ Written evidence, DHP2 15

benefits of improving the energy efficiency of the nation's housing stock include the cost savings on household bills".⁸²

99. Dr Donal Brown said, "with energy prices where they are, I think there's a very receptive audience now for this, so I think we should be bold and start having that conversation".⁸³ Emma Harvey (Green Finance Institute) emphasised the importance of messaging. She told the Committee, "very few people actually retrofit their home for climate reasons and, actually, to date a lot of the messaging has been around the environmental benefits. So, we have the cost-of living crisis; we know that people are wanting to take action, so that's something we can play into".⁸⁴

Independent advice and support

100. CIH said a lack of targeted advice and information for both landlords and tenants is "a core challenge" to the uptake of retrofit measures in the PRS.⁸⁵ Community Energy Wales said "many [owner occupiers] are keen to reduce their carbon footprint, and have private capital to do so, but are confused by conflicting messages from the media and the grapevine". It highlighted the need for "a support service, consistent across Wales, professional and authoritative, that can engage effectively with the private sector and gain its trust".⁸⁶

101. There was widespread support for the creation of 'one-stop shops' to provide independent advice and support across the housing sector. EST reported both Northern Ireland and the Republic of Ireland have moved (or are moving) towards "a more holistic one-stop-shop-style approach", following the success of **Home Energy Scotland** (HES)⁸⁷. EST explained HES delivers "comprehensive, tailored and bespoke support to households of all tenures. This has helped to achieve strong results in terms of reducing household running costs and carbon emissions".⁸⁸

102. CIH was a strong advocate for local authority led 'one-stop shops'. It cited the New Economics Foundation's work, which estimates that this would require around £12m per 500,000 homes retrofitted, or £33m for a national retrofit programme.

⁸² Written evidence, DHP2 23

⁸³ RoP, paragraph 50, 5 October 2022

⁸⁴ RoP, paragraph 85, 20 October 2022

⁸⁵ Written evidence, DHP2 7

⁸⁶ Written evidence, DHP2 16

⁸⁷ Home Energy Scotland is a network of regional advice centres covering Scotland, funded by the Scottish Government and managed by EST.

⁸⁸ Written evidence, DHP2 25

103. Dr Donal Brown said “local authorities are the natural actor in this space to be the central co-ordinating, trusted body”, however they currently lack capacity and resource.⁸⁹

Evidence from the Minister

104. In consulting on the next iteration of the WHP, Welsh Government said it “is considering the benefits of a home energy efficiency advice and support service. This could be independent of the agent or agents appointed to administer and/or design and install housing energy efficiency measures, and could be integrated into a broader ‘one-stop-shop’”.⁹⁰

105. The Minister reported many of those in the ‘able to pay’ sector are keen to begin decarbonising their homes. She said, the Welsh Government is investing in a new Housing Net Zero Carbon performance Hwb (the Hwb) “to support [the ‘able to pay’] and provide confidence they are taking the right steps for their homes, as well as provide wider advice, support and guidance to all those involved in residential decarbonisation”.⁹¹ She added, the Hwb brings together expert guidance on all aspects of decarbonising residential homes on a ‘For Good’ basis. In the first instance, the Hwb will be available to social landlords. It is anticipated the services offered by the Hwb will be expanded to help private landlords and homeowners.

Our view

Improving understanding of the existing housing stock

While there is an overall understanding of the types of houses in Wales and their energy efficiency, more comprehensive information and data is required to underpin future decisions, target support and measure progress. The Welsh Government must take action to address this issue.

We believe there is a strong case for a Welsh housing survey. Although the Minister gave a commitment to consider undertaking a survey in 2022, one has yet to materialise. We expect the Minister to provide an explanation for this.

⁸⁹ RoP, paragraph 201, 5 October 2022

⁹⁰ [Welsh Government, Consultation document: Improving home energy efficiency to support a just transition and greener Wales: Proposals for the next iteration of the Warm Homes Programme, 22 December 2021](#)

⁹¹ [Evidence paper from the Minister and Deputy Minister for Climate Change for the 7 December 2022 meeting](#)

While we are encouraged to hear about the SHREWD programme, it is only operating in the social housing sector. It is unclear whether and how the Welsh Government intends to improve understanding of energy consumption and carbon emissions in the privately-owned sector, particularly without access to smart data. We would welcome clarification on this issue.

We note the Minister has already committed to raise the matter of access to smart meter data with the UK Government. We would like the Minister to provide details of her latest discussions with the UK Government, including the outcome. We expect the Minister to continue to press the UK Government on this issue until a suitable resolution has been reached.

We question why, having previously accepted the Advisory Group's recommendation in relation to BRPs, the Minister has now decided not to take it forward in relation to the privately-owned sector. We believe BRPs are a key tool for improving understanding of Wales' existing homes and supporting homeowners to make informed decisions about energy efficiency improvements. We share the concerns raised in evidence that the unwillingness of the Welsh Government to take action on BRPs is a blocker to progress. We urge the Minister to reconsider her position.

A public engagement strategy

The Welsh Government needs to do more to raise public awareness of the climate impact of homes, and the importance and benefits of improving energy efficiency. The current cost-of-living crisis and rising energy bills means now is an opportune time to engage the public in conversation about improving energy efficiency. We have seen no evidence to suggest the Welsh Government has stepped up public engagement in recent months. This is a missed opportunity.

The Welsh Government has recently published its draft strategy for engaging the general public in action on climate change. It is unclear whether and how this will deliver action to raise public awareness of the need to reduce the climate impact of Wales' homes. We would welcome an explanation from the Minister on this issue.

A 'one-stop-shop' for advice and support

Lack of access to quality, trusted advice and information is a barrier to energy efficiency activity in the privately-owned sector. There are encouraging signs the Welsh Government is making good progress towards addressing this through

the establishment of its Housing Net Zero Carbon performance Hwb. However, stakeholders, including housing professionals operating in Wales, appear to be unaware of the Welsh Government's plans for a Hwb.

In the first instance, the Hwb will be available to social landlords. It is anticipated the services offered by the Hwb will be expanded to help private landlords and homeowners.

Once the Hwb is up and running, it will only be available to social landlords, at least in the short term. We question the rationale for this. Given there may be some property owners already willing and able to undertake retrofit activity, we believe it would be beneficial for the Hwb to be available to all from the outset.

Recommendation 19. The Minister should explain why a Welsh housing survey was not undertaken in 2022. She should commit to undertaking a continuous national survey, akin to the English Housing Survey, with the first survey to be undertaken as soon as practicable. If the Minister is unwilling to commit to such a survey, she should provide a detailed explanation of why.

Recommendation 20. The Minister should clarify whether and how the Welsh Government intends to improve understanding of energy consumption and carbon emissions in the privately-owned sector without access to smart metre data.

Recommendation 21. The Minister should provide details on her latest discussions with the UK Government on gaining access to smart metre data. She should commit to continuing to press the UK Government on this issue until a resolution can be reached.

Recommendation 22. The Minister should commit to implementing the recommendation made in the Jofeh Report in relation to Home Log Books/Building Renovation Passports (BRPs). In doing so, she should explore the evidence received by this Committee that, working with the private sector, BRPs could be made available to homeowners at no cost.

Recommendation 23. The Minister should explain whether and how the Welsh Government's strategy for engaging the general public in action on climate change will deliver direct action to raise public awareness of the need to reduce the climate impact of Wales' homes.

Recommendation 24. The Minister should ensure that the Housing Net Zero Carbon performance Hwb is available to all tenures as soon as it is established.

Recommendation 25. The Minister should explain how she intends to raise awareness of the Housing Net Zero Carbon performance Hwb among stakeholders and property owners with a view to ensuring they can take full advantage of the advice and support services on offer.

Under embargo until 00.01 hours on Tuesday 28 February 2023

6. Developing skills and the supply chain

106. Stakeholders identified an under developed supply chain and skills base as a significant barrier to retrofitting Wales' homes. These issues have already been highlighted in work undertaken by other Senedd committees, as well as the Future Generations Commissioner and New Economics Foundation in their reports, **Homes Fit for the Future**, and **Skills through Crisis: Upskilling and (Re)Training for a Green Recovery in Wales** (May 2021).

107. RICS told the Committee the UK Government's **Social Housing Decarbonisation Fund Demonstrator** highlighted skills and supply chain challenges as a blocker to progress.

108. UKGBC reported "many traditional installers and boiler manufacturers still focus on traditional fossil fuel systems – with investment in upskilling, new supply chains and production methods not offset by the current demand for greener products". It added:

*"To scale up the number of home retrofits possible a huge programme of upskilling and investment is needed across the industry. However, there is no point in training vast numbers of retrofit contractors if there is not sufficient demand for their services. Demand creation and building the supply chain need to go in tandem."*⁹²

109. CIH told the Committee:

*"Delivering this [retrofit] 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."*⁹³

110. RICS called for the Welsh Government to establish a specific training budget "to help small businesses upskill their workforce and ensure that Wales has the skills base necessary to conduct a mass retrofit of its housing stock".⁹⁴

⁹² Written evidence, DHP2 26

⁹³ Written evidence, DHP2 7

⁹⁴ Written evidence, DHP2 28

111. RICS welcomed the creation of retrofitting academies in Wales and the introduction of the Built Environment GCSE and A Level. However, it asserted, “there remains a significant education deficit and disparity” that needs to be addressed. It recommended the Welsh Government “should create parity with the rest of the UK and offer Degree Apprenticeship funding for those skills that will have an influential role in delivering retrofitting and decarbonisation – not just installers but also surveyors, planners, and architects”.⁹⁵

Evidence from the Minister

112. The Minister explained one of the reasons for focusing efforts on the social housing sector is to “grow the workforce and the supply chains to develop the infrastructure necessary to support wider decarbonisation”.⁹⁶ She suggested the ORP and other Welsh housing initiatives would, eventually, “produce the green jobs and skills necessary to move to the next phase [of the housing decarbonisation programme]”.⁹⁷

113. The Welsh Government was due to published its Net Zero Skills Action Plan (the Action Plan) in spring 2022, which was then put back to before the end of 2022. When asked by the Committee to clarify when the Action Plan would be published, the Minister said it would be “early next year”.⁹⁸ She emphasised that the Action Plan does not fall within her Ministerial responsibilities, rather it is the responsibility of the Minister for Economy (along with the Minister for Education and Welsh Language).

Our view

The retrofit skills shortage is a serious blocker to decarbonising Wales’ existing homes. Although the Welsh Government has taken some steps to address this, it needs to do more, and quickly, to grow the supply chain and address the ongoing skills shortage. There is a strong expectation for the Net Zero Skills Action Plan to deliver the necessary improvements. Given this, we are disappointed that the Action Plan has been the subject of significant delay. We expect the Action Plan to be published no later than March 2023.

⁹⁵ Written evidence, DHP2 28

⁹⁶ RoP, paragraph 201, 7 December 2022

⁹⁷ RoP, paragraph 201, 7 December 2022

⁹⁸ RoP, paragraph 233, 7 December 2022

We have committed to undertaking work on retrofit skills and the supply chain later in the Sixth Senedd when we will pursue, in more detail, the matters raised by stakeholders in their evidence to this inquiry.

Recommendation 26. The Welsh Government must publish its Net Zero Skills Action Plan no later than March 2023. If it is not in a position to do so, we expect the Welsh Government to explain the reason in responding to this report.

Under embargo until 00.01 hours on Tuesday 28 February 2023

7. Fiscal incentives and financial solutions

Driving demand through fiscal incentives

114. Stakeholders emphasised the importance of fiscal incentives to help drive demand within the privately-owned sector, with strong support for the introduction of variable Land Transaction Tax (LTT), also referred to as an Energy Saving Land Transaction Tax Incentive.

“How would an Energy Saving LTT Incentive work?”

The energy demand of the home is calculated from the independently produced Energy Performance Certificate (‘EPC’).

The LTT to be paid is adjusted up or down based in the home’s calculated energy demand – the better the energy performance, the lower the tax paid.

If the purchaser undertakes low energy improvements within two years, and obtains an updated EPC, a rebate would be paid as if the improvement had been made before purchase.

The government could increase the value of the rebate paid to lower value homes to help subsidise the costs of the installed energy performance measures.

Any recognised improvement in the home’s energy efficiency would reduce the LTT paid.”

115. According to UKGBC, “an Energy Saving LTT Incentive, combined with grants for lower value homes, would be a workable and effective structural solution, working seamlessly with existing green finance arrangements and policies as well as driving innovative new approaches to delivering home upgrades”.⁹⁹ Andy Sutton, Sero, told the Committee Variable LTT/Energy Saving LTT “is a good example of a positive intervention that would change market behaviours...rather than provide sticking plasters for a short-term solution. We have to drive the behaviour change”.¹⁰⁰

⁹⁹ Written evidence, DHP2 26

¹⁰⁰ RoP, paragraph 452, 20 October 2022

116. Chris Jofeh called for the Development Bank of Wales to lead the trialling of variable LTT in Wales. He said:

“I’m hopeful that Welsh Government will be brave and dip a toe in the water and try it out. We’ve passed the point at which we can study things indefinitely until we get it perfect; I think we just have to be brave and try things, and be ready to pull the plug if they don’t work.”¹⁰¹

Evidence from the Minister

117. When asked for her views on Variable LTT/Energy Saving LTT, the Minister said “it’s important to remember that the primary purpose of land transaction tax is to raise revenue to fund essential public services”. However, the Minister said she and the Minister for Finance and Local Government “are really interested in exploring how we can use all of our taxes for behaviour change in the context of climate change”. She added, they are particularly interested in whether “incentivisations on the council tax banding arrangements and so on might be something we could look at for properties that are brought up to EPC A or better”.¹⁰²

118. The Minister told the Committee the decision on using council tax to incentivise energy efficiency retrofit would be a matter for the Minister for Finance and Local Government.

Green mortgages

119. Green Mortgage products come in a variety of different forms, but all aim to incentivise homeowners to invest in improving the energy efficiency of their properties, for example, by offering a lower interest rate than other comparable products and/or cashback.

120. UK Finance told the Committee, “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”.¹⁰³ BSA said:

“There are an increasing number of green mortgages and further advances available, to either fund decarbonisation

¹⁰¹ RoP, paragraph 173, 5 October 2022

¹⁰² RoP, paragraph 290, 7 December 2022

¹⁰³ Written evidence, DHP2 18

*works or which reward a better Energy Performance Certificate (EPC) rating. But, many consumers are still unaware of these products and this is a new product area for many lenders”.*¹⁰⁴

121. It acknowledged the need for “more and faster innovation in this space”, and has been discussing with [the Green Finance Institute] how best this could be achieved.¹⁰⁵

122. CIH told the Committee green mortgages “offer little financial incentive to owner-occupiers”. It added:

“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.”*¹⁰⁶

123. Representatives from the finance sector emphasised that finance is an “enabler” rather than a driver of demand.

Meeting the cost of energy efficiency retrofit

124. Net Zero Wales explains financial support for retrofit “has historically been targeted at those least well off in the hardest to heat homes” and that “this prioritisation is expected to continue through the 2020s”. It also explains for “the better off”, the Welsh Government “expects the market to provide [financial] solutions to enable the retrofit of homes”.

125. Research undertaken by the Welsh School of Architecture estimates the capitol cost of whole-house retrofit to EPC A (as recommended by the Advisory Group) at between £17k and £66.8k, depending on house archetype. Stakeholders raised concern that such costs would be unaffordable for many homeowners without grant support and/or suitable financial products/solutions.

¹⁰⁴ Written evidence, DHP2 13

¹⁰⁵ RoP, para 89, 20 October 2022

¹⁰⁶ Written evidence, DHP2 7

Financial solutions for the ‘able to pay’

126. The July 2019 Jofeh Report recommended urgent action be taken “[to] create financial support mechanisms to enable owner-occupiers and private landlords who wish to improve the energy efficiency of their properties”. In responding to the Report, the then Minister for Local Government and Housing, Julie James MS, committed to establish a green finance group to explore innovative finance solutions.

127. Stakeholders echoed the findings of the Jofeh Report and suggested limited progress has been made towards developing financial solutions for the ‘able to pay’ sector since the publication of the Report.

128. The Development Bank of Wales (DBW) told the Committee it “is currently assessing the package of support that will suit the needs of the Welsh market”. It added:

“[We are] working on the development and launch of pilot funding offers which can test and subsequently adjust to evolving market needs... Work in this area is advancing well through the collaboration with Nesta and ongoing discussions with the Welsh Government on funding requirements. Shaping a hybrid funding offer matching an element of grant with repayable finance will be presented to the Welsh Government in the form of a Business Case in the coming months aligned with their desire to extend Optimised Retrofit into these sectors.”¹⁰⁷

Property Linked Finance

129. There was strong support for Property Linked Finance (PLF) (also referred to as Property Assessed Clean Energy, or ‘PACE’ financing) to enable homeowners to meet the cost of energy efficiency retrofit. PACE is already used in several US states.

What is Property Linked Finance (PLF)?

“Property-Linked Finance will support homeowners by funding up to 100% of the upfront costs of energy efficiency improvements, with the

¹⁰⁷ Written evidence, DHP2 33

unique characteristic that the finance is 'linked' to the property, rather than the property owner.

This directly addresses the "payback period barrier" whereby, although timescales to recoup savings are shortening due to increasing energy costs, homeowners are deterred from retrofitting as the energy bill savings over their expected time living in the property are not sufficient to make it financially worthwhile. PLF is also secured finance, which enables much longer repayment periods and lower individual repayments."¹⁰⁸

Green Finance Institute

130. PLF/PACE is one of the key financial solutions proposed by the New Economics Foundation and the Future Generations Commissioner in their report, Homes Fit for the Future: The Retrofit Challenge. They suggest PLF/PACE could help address the 'split incentive' in the PRS, which is commonly cited as a reason for poor energy performance across the sector. CIH expressed a similar view.

131. GFI reported its research has shown "there is appetite from consumers for a PLF scheme, both in a stable and rising energy price environments. If coupled with mechanisms to drive demand – including both 'sticks' (such as regulations) and 'carrots' (such as tax rebates) – and other public, private and blended finance schemes, PLF will play an important role in supporting widescale upgrading of the built environment across the UK."¹⁰⁹

132. In August 2022, GFI and Greater Manchester Combined Authority **announced a partnership** to support energy efficiency improvements across the city region. It will work with relevant organisations to pilot a series of financial solutions, including the UK's first PLF scheme.

133. Several stakeholders suggested the Welsh Government working with the DBW should pilot a PLF scheme. The DBW told the Committee it had already linked with GFI on work in this area. However, it suggested a pilot scheme would not be straightforward because it "requires legislative allowances and devolved

¹⁰⁸ www.greenfinanceinstitute.co.uk/news-and-insights/new-research-shows-uk-appetite-for-innovative-financial-products-to-enable-energy-efficiency-upgrades-and-reduce-energy-bills/#:~:text=Property: Linked%20Finance%20will%20support%20homeowners%20by%20funding%20up.to%20the%20property%2C%20rather%20than%20the%20property%20owner

¹⁰⁹ [Property Linked Finance: Rising consumer demand for energy efficiency and the need for financial innovation](#), Green Finance Institute

powers to create a mechanism to achieve this, as well as local government resource to operate”.¹¹⁰

134. It also said, for PLF/PACE to become a potential workable solution for Wales, “it is important that the areas of government that are able to, consider and influence the necessary legislative considerations and are brought into discussions to understand the feasibility and practicalities of this”.¹¹¹

Low cost/zero-interest loans

135. The Future Generations Commissioner and New Economics Foundation recommended the Welsh Government work with the DBW to trial low interest loans to landlords for retrofit finance. Propertymark and NRLA raised similar points, with NRLA calling for the DBW to provide low or zero interest loans to landlords where they are likely to face prohibitive costs when making energy efficiency improvements, or where their property is in a low rental market area. NRLA said the use of such loans would “encourage uptake whilst ensuring it does not cost the Welsh taxpayer in the long run”.¹¹²

136. EST referred to the **Scottish Government’s Private Rented Sector Landlord Loan**, administered by Home Energy Scotland, which provides interest-free loans of up to £38,500 to help landlords improve the energy efficiency of their properties and meet MEES. It explained:

*“Central to the scheme is the delivery of impartial advice. Applicants must contact Home Energy Scotland personally to get impartial advice about their home and engage in a decision- making process about how best to improve it. An EPC assessment must also be produced recommending the chosen measures.”*¹¹³

137. The Chartered Institute of Building (CIOB) advocated a ‘Help to Fix’ loan scheme. This involves “the provision of interest free loans by the Welsh Government directly to owner occupiers for a range of measures which, while predicated on improving energy efficiency, would also extend to other measures including loft conversions, extensions, annexes and home improvements”. According to CIOB, “this would leverage the already high demand for home

¹¹⁰ Written evidence, DHP2 33

¹¹¹ Written evidence, DHP2 33

¹¹² Written evidence, DHP2 6

¹¹³ Written evidence, DHP2 25

improvements in the economy to improve the energy efficiency of Wales' housing stock".¹¹⁴

Equity Release products

138. Several stakeholders highlighted Equity Release products as a potential financial solution for the owner-occupier sector, particularly asset rich cash poor households. Equity Release allows homeowners to unlock the equity in their property without the requirement to move home.

139. The New Economics Foundation and the Future Generations Commissioner recommended the Welsh Government work with the Development Bank of Wales to trial Equity Release Loans. A similar view was expressed by RICS who suggested "the government could offer to fully subsidise retrofitting costs, with costs reclaimed as a % of value at a future sale, or the release of equity in a set period - like the Help to Buy Wales scheme".¹¹⁵

140. Emma Harvey, GFI, told the Committee "the Equity Release Council has started to turn its attention towards green equity release solutions" and Legal & General has already launched a green equity release product. However, she added these products "need to be set within the wider context of a stricter and more consumer-friendly equity release market".¹¹⁶

141. Cenydd Rowlands, DBW, reported research undertaken in collaboration with Nesta found green equity release products "was one of the lowest [financial products] in terms of potential uptake, on the feedback from home owners". He added:

*"It's not too different to what we see in the business equity space in Wales, which we have a good insight to in DBW, where the notion of, 'I don't want to give up a slice of what I own' is a strong characteristic and a difficult one to overcome, despite being able to point to a number of very good reasons why it can be an effective solution."*¹¹⁷

142. Paul Broadhead, BSA, reported "a nervousness around equity release", with a belief among homeowners that "the interest [on the loan] is going to grow and it's

¹¹⁴ Written evidence, DHP2 22

¹¹⁵ Written evidence, DHP2 28

¹¹⁶ RoP, paragraph 101, 20 October 2022

¹¹⁷ RoP, paragraph 109, 20 October 2022

going to eat into the inheritance that they're then going to pass on".¹¹⁸ However, he also reported the industry was innovating to overcome this.

Evidence from the Minister

143. The Minister told the Committee, “decarbonising and improving the energy efficiency of homes in Wales across all tenures, and how we might fund this, is complex. There are significant challenges in terms of the infrastructure needed and funding. Welsh Government continues to work with partners to explore approaches”.¹¹⁹

144. According to the Minister, the Welsh Government has “started evaluating a variety of options for financing retrofit in the owner-occupied and private rented sector. These incorporate both grant funding and repayable finance. The financial capacity of the end user will help direct them to the most appropriate financing solution in the medium term”. She said models for financing which will be considered include PACE; low interest loans; equity release loans and green mortgages. She added, “a grant mechanism may also be needed for lower income households although, for those in fuel poverty that meet the scheme criteria, the Warm Homes Programme NEST has been providing support”.¹²⁰

145. The Minister’s official confirmed the DBW is “working with Nesta on pilot schemes for green finance for owner-occupiers”.¹²¹ It is anticipated that the work will result in a financial product being brought forward later in 2023.

146. The Minister said the Welsh Government is bringing together a panel of experts from across the finance sector to help evaluate options and shape viable funding solutions.

Our view

Tax based incentives

Fiscal incentives have an important role to play in changing consumer behaviour and, combined with appropriate financial support mechanisms, could help drive energy efficiency retrofit. The use of fiscal incentives in this context is not a new concept, but it is one that has yet to be tested in Wales.

¹¹⁸ RoP, paragraph 111, 20 October 2022

¹¹⁹ Evidence paper from the Minister and Deputy Minister for Climate Change, for the 7 December 2022 meeting

¹²⁰ Evidence paper from the Minister and Deputy Minister for Climate Change, for the 7 December 2022 meeting

¹²¹ RoP, paragraph 297, 7 December 2022

During the Fifth Senedd, the Welsh Government ruled out the use of tax based incentives, but indicated it would be willing to re-examine its position depending on any evidence that came forward from the Advisory Group. Despite the Advisory Group call for the Welsh Government to consider the use of Council Tax, the Minister's evidence to us suggests that no progress has been made in taking this forward beyond an initial discussion between Ministers. This is disappointing.

Aligning Council Tax to the energy efficiency of homes would be a significant change to the current taxation system, which is already undergoing a process of reform. It would require considerable work, including piloting and trials, and would need a long lead in time. The Welsh Government must begin work, in earnest, to assess the feasibility of using Council Tax to incentivise energy efficiency retrofit. We expect the Minister, in conjunction with the Minister for Finance and Local Government, to agree a programme of work to take this forward.

We were struck by the strong support in evidence for the use of variable LTT to incentivise energy efficiency retrofit. There has already been considerable work undertaken by a range of finance experts on this issue. The Welsh Government should use this as a starting point to consider whether variable LTT would be a viable option in Wales.

Financial solutions

We know the Welsh Government cannot be expected, and indeed cannot afford, to meet the cost of energy efficiency retrofit for Wales' 1.1 million privately-owned homes. While some public funding is available, it is mainly targeted at low-income households in, or at risk of, fuel poverty. A significant number of property owners will, therefore, need to find ways to meet the cost of retrofit.

The Welsh Government in the Fifth Senedd committed to establishing a green finance group to explore potential financial solutions for the 'able to pay' sector. More than three years later, we are still waiting for solutions to come forward. Moreover, the evidence we received from stakeholders and from the Minister suggests work to develop solutions remains in the early stages.

Once again, the Minister has committed to bringing together a panel of finance experts "to help evaluate options and shape viable funding solutions". The Welsh Government cannot afford another long delay. We expect the Minister, in conjunction with the Development Bank of Wales and other relevant

stakeholders, to bring forward a range of fully worked up proposals for the following financial solutions for the 'able to pay' sector: PACE/PLF; zero/low interest loans; and equity release loans. This work should be completed no later than 12 months after the publication of this report with a view to piloting and trialling solutions thereafter.

Notwithstanding our concern about the lack of progress made to date, we note a "hybrid funding offer" is currently being developed and will be brought forward in 2023. We would welcome further details on this.

Recommendation 27. The Minister, working with the Minister for Finance and Local Government, should assess the feasibility of using Council Tax and Land Transaction Tax to incentivise energy efficiency retrofit as a priority. The Minister must report back to this Committee on progress no later than six months after the publication of this report and every six months thereafter until this work is completed.

Recommendation 28. The Minister should accelerate work to develop proposals for the following financial solutions for the 'able to pay' sector: PACE/PLF; zero/low interest loans; and equity release loans. She should report back to this Committee on progress no later than six months after the publication of this report and every six months thereafter until this work is completed.

Recommendation 29. The Minister should provide further details of the "hybrid funding offer" arising from the work of the Development Bank of Wales and Nesta. This should include a target date for roll out across the sector.

Annex 1: List of oral evidence sessions

The following witnesses provided oral evidence to the committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed on the **[Committee's website](#)**.

Date	Name and Organisation
5 October 2022	<p>Dr Donal Brown, Sustainability Director, Sustainable Design Collective Ltd</p> <p>Rhiannon Hardiman, Change Maker, (Climate, Nature, Decarbonisation), Office of the Future Generations Commissioner for Wales</p> <p>Christopher Jofeh, Chair, Welsh Government's Independent Implementation Group on the Decarbonisation of Existing Housing</p>
5 October 2022	<p>Catherine May, Tyfu Tai Cymru Manager, Chartered Institute of Housing Cymru</p> <p>Andy Regan, Mission Manager, A Sustainable Future Mission, NESTA</p>
20 October 2022	<p>Paul Broadhead, Head of Mortgages and Housing, Building Societies Association</p> <p>Emma Harvey, Programme Director, Green Finance Institute</p> <p>Matthew Jupp, Principal, Mortgages Policy, UK Finance</p> <p>Cenydd Rowlands, Property Director, Development Bank of Wales</p>
20 October 2022	<p>Dan Wilson Crow, Deputy Director, Generation Rent</p> <p>Gavin Dick, Policy Officer, National Residential Landlords Association (NRLA)</p> <p>Timothy Douglas, Head of Policy and Campaigns, Property Mark</p>
20 October 2022	<p>David Adams, Sustainability Consultant, UK Green Building Council</p>

Date	Name and Organisation
	<p>Gordon Brown MCIQB, Chair of Cymru Member Hub Committee, Chartered Institute of Building (CIOB)</p> <p>Sam Rees, Senior Public Affairs Officer - Wales, Royal Institution of Chartered Surveyors (RICS)</p> <p>Andy Sutton, Co-founder and Chief Innovation Officer, Sero</p>

Under embargo until 00.01 hours on Tuesday 28 February 2023

Annex 2: List of written evidence

The following people and organisations provided written evidence to the Committee. All Consultation responses and additional written information can be viewed on the [**Committee's website**](#).

Reference	Organisation
DH2P 01	Trinity House
DH2P 02	Individual
DH2P 03	Action on Empty Homes (AEH)
DH2P 04	Individual
DH2P 05	Christopher Jofeh
DH2P 06	National Residential Landlords Association (NRLA)
DH2P 06A	National Residential Landlords Association (NRLA)
DH2P 07	Chartered Institute of Housing Cymru
DH2P 08	Calor
DH2P 09	Care & Repair Cymru
DH2P 10	Welsh Local Government Association (WLGA)
DH2P 11	Country Land and Business Association (CLA) Cymru
DH2P 12	Federation of Small Businesses (FSB) Wales
DH2P 13	Building Societies Association (BSA)
DH2P 14	National Energy Action (NEA) Cymru
DH2P 15	Sero
DH2P 16	Community Energy Wales
DH2P 17	Federation of Master Builders (FMB) Cymru
DH2P 18	UK Finance
DH2P 19	British Standards Institution (BSI)
DH2P 20	Cwmpas
DH2P 21	Audit Wales

Reference	Organisation
DH2P 22	Chartered Institute of Building (CIOB)
DH2P 23	Property Mark
DH2P 24	Generation Rent
DH2P 25	Energy Saving Trust
DH2P 26	UK Green Building Council
DH2P 27	Housing Expert Panel, Welsh Heads of Environmental Health Group
DH2P 28	Royal Institution of Chartered Surveyors (RICS)
DH2P 29	Royal Society of Architects in Wales (RSAW)
DH2P 30	The Property Institute (TPI)
DH2P 31	Robert Chapman, Strategic Property Advisor and Regeneration Practitioner
DH2P 32	Nesta
DH2P 33	Development Bank of Wales