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Llywodraeth Cymru
Welsh Government

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7 April 2022

Dear Llyr

Thank you for your invitation to update the Climate Change, Environment & Infrastructure Committee (CCEI) on the vital work underway to reduce carbon emissions from Welsh homes.

Background & Context

Decarbonising Wales' 1.4 million homes is complex, challenging but essential if our climate change ambitions are to be delivered. A mission made more demanding by the sense of 'Zeitenwende' or the turning of an age that feels upon us. Two years of the pandemic has fundamentally changed the way many people live, work, and feel about their homes. The post pandemic economic 'bounce' has seen the return of increasing inflation and has reversed many of the gains made over the last decade in alleviating fuel poverty. The war in the Ukraine has had a sudden and far reaching impact on energy markets and households across the world.

The pace of change in the decarbonisation arena continues to increase, with efforts now not solely focused on reducing operational carbon (carbon generated when operating a home) but whole life carbon (the carbon generated when constructing and refurbishing homes).

Thus, while the *'Better Homes, Better Wales, Better World'* report articulated some clear ambitions and a high level direction of travel when it was published in July 2019, much has changed since it was written, and our programme of work has had to be resilient in the face of those changes. This update demonstrates the progress made in delivering the report's recommendations, considers the position set out in the Future Generation Commissioners report, and provides an insight into other Welsh Government led activities to decarbonise housing in Wales against the backdrop of a dynamic, fast paced, changing world.

I am pleased to provide the following information in order to support the first phase on the inquiry.

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Provide an update on progress made by the Welsh Government in taking forward each of the recommendations made by the Decarbonisation of Homes in Wales Advisory Group in its report, *Better Homes, Better Wales, Better World*.

The independent report 'Better Homes, Better Wales, Better World – Decarbonising existing homes in Wales' was published in July 2019. Welsh Ministers accepted in principle 7 strategic commitments, comprising 24 actions. Of the 24 actions, 9 have been delivered, 12 are progressing and 3 have not been actioned yet, although preliminary groundwork has begun. Decarbonisation is a long term activity with some recommendations spanning a decade or more. Hence, there are a number of recommendations making progress but not yet concluded. Annex A provides details of current progress against each action

Headlines

1. The report recommends at least £100m of investment be made available to kick start the decarbonisation of housing in Wales. The Optimised Retrofit Programme (ORP) has been established in response. Ministers have already committed £70m of funding to social landlords to learn how to effectively and efficiently decarbonise homes. A further £150m has been made available to continue ORP during this term of government, taking total residential decarbonisation investment since 2020 to around £220m.
2. ORP provides 'gap' funding to bridge the gap between how much private funding social landlords can afford to invest in order to decarbonise a home, and the actual costs. The investment aims to pump prime markets in the early years of moving to Net Zero Carbon, upskill and increase competency in assessors and installers, whilst growing indigenous Welsh supply chain capacity to allow local businesses to fully benefit from the 'green building revolution'.
3. ORP has funded the successful establishment of two Dynamic Purchasing Systems (DPSs). These procurement frameworks - one for skills and one for low carbon materials – have been deliberately set up to support the systemic change to decarbonise sectors of the economy. The frameworks allow Welsh SMEs and microbusinesses to benefit from significant local ORP investment. The aim is to generate prosperity within communities and retain investment value within Wales.
4. Channelling ORP investment through social landlords supports a 'testing and learning' approach to decarbonising homes. As well as evaluating the technical and tenant aspects of the work, actual costs will be monitored and used in the assumptions of future funding models of residential decarbonisation. This approach will provide the springboard to rapidly start the decarbonising of homes in other tenures by 2023.
5. Decarbonisation efforts are starting in social housing, before moving into other tenures because this is where Welsh Ministers have the most levers. Report recommendations relating to the private rented sector and owner occupiers are therefore less advanced than for social homes because of this strategic prioritisation.

6. The Optimised Retrofit Programme reflects a strategic commitment to decarbonise in a way that is good for people and the planet. In practice, this means assessing each home to decide the works required to ensure the property reaches Net Zero Carbon. The next step is then agreeing a schedule of works for the property, setting out when the works will be undertaken. This home by home approach will allow Welsh Government to collect data about the status and condition of social housing stock to inform future decisions, and measure progress towards housing decarbonisation targets.
7. The Welsh Development Quality Requirement 2021, Creating Beautiful Homes and Spaces (WDQR2021) became extant on 1st October 2021. The standard determines the quality of new-build affordable homes in Wales funded by Welsh Government. This UK leading social homes standard requires EPCA -SAP 92 in response to the report recommendations, bans the use of fossil fuelled heating and hot water, and is expected to be expanded to apply to market homes by 2025. This is as per recommendation from the 2019 Independent Affordable Housing Review. This standard eliminates the requirement to retrofit homes built to the WDQR2021 standard in future.
8. The revised Welsh Quality Housing Standard (WHQS) sets the standard for existing social homes in Wales. Due for consultation in May 2022, the standard will deliver a long term retrofit programme (10 years or more) for social housing. Proposals are likely to include EPCA (SAP 92), and carbon reduction measures to deliver Net Zero Carbon in line with 'Net Zero Wales' commitments. It is expected WHQS will be expanded into other tenures over time.
9. The Welsh Government is making maximum use of communities, networks, and third sector organisations in helping to decarbonise homes. The new WHQS and WDQR2021 standards involved significant co-creation with a range of stakeholders. For example, the WHQS task and finish group includes Public Health Wales, Tai Pawb (third sector organisation focused on equalities), TPAS (the tenants' representative body) and the Future Generations Commissioner's (FGC) office amongst others.
10. Welsh Ministers have also invested £990,000 over three years to fund a Net Zero Carbon 'Hwb' to provide support to social landlords seeking advice and guidance on approaches to decarbonise their housing stock. Access to the latest research and thinking, information regarding material choices and procurement support will also be available. The Hwb will begin operating in 2022/2023 on a 'for good' basis for social landlords, before being rapidly expanded to support private landlords and homeowners seeking to reduce the carbon footprint of their home.

Share with the Committee the Welsh Government's response to the Future Generation Commissioner's report, Homes Fit for the Future: The Retrofit Challenge

11. The Welsh Government did not make a formal response to the FGC's report Homes Fit for the Future; The Retrofit Challenge. The FGC's report focussed on estimating the total funding needed for the decarbonisation of homes in Wales, identify funding gaps and suggesting approaches to addressing these gaps. The report provides a useful addition to thinking on this highly complex issue.

12. Welsh Government is working together with the social housing sector and others to develop the new WHQS standard for retrofitting social homes. The revised standard will address fuel poverty and climate change, as set out in the Future Generation Commissioners Report, and is key to developing a fair and sustainable funding model for the future.
13. The 'Homes fit for the Future' report underlines the importance of Government funding of decarbonising retrofit of homes. However, whilst Government has an important role to play in setting direction and supporting organisations financially in the early years of residential decarbonisation, the costs will need to be born in partnership with, business, organisations and individuals. Future funding models will need to reflect this position.
14. Welsh Government has begun evaluating a variety of options for financing retrofit in the owner-occupied and private rented sectors. These incorporate both grant funding and repayable finance. The financial capacity of the end-user will be utilised to help direct them to the most appropriate financing solution in the medium term.
15. Some of the models for financing that are being considered include Property Assessed Clean Energy, in which the loan is linked to the property rather than individual, low interest loans, equity release loans and green mortgages. A grant mechanism may also be needed for lower income households.
16. Decarbonising and improving the energy efficiency of homes in Wales across all tenures, and how we might fund this, is highly complex. Welsh Government continues to work with partners to explore approaches. Specifically we have recently begun work with the Development Bank of Wales looking at funding options for the owner occupied sectors.
17. The independent Decarbonisation Implementation Group (Chair Chris Jofeh authored the 'Better Homes, Better Wales, Better' World report) provides expert guidance to Welsh Government regarding housing decarbonisation. The group is tasked with developing a potential 'offer' or product targeted at owner occupiers and the group due to report back to officials shortly.
18. While the report provided some suggested priorities for the Welsh Government, a number of areas within the report were acknowledged as being dependent on wider work with the UK government. For example, Welsh Government is committed to responding to the UK Government's Minimum Energy Efficiency Standard (MEES) consultation scheduled for spring 2023. However, this is not a devolved matter so Ministers must work with UK government to shape and influence the approach. It would not be appropriate for us to pre-empt the outcome of this consultation into energy efficiency standards in the Private Rented Sector. Hence the prioritisation of social sector, before turning our decarbonisation efforts to other tenures.
19. The Future Generations Commissioner's report sets out the interconnected challenge of decarbonising homes whilst tackling fuel poverty. Officials are working to ensure coherence across these policy areas. The creation of the new Group structure with a

new Director General for climate change reflects the key priorities of this government and the determination for alignment of these areas. New arrangements come in to being on 1st April 2022.

I look forward to sharing with you in more detail our progress decarbonising housing in Wales in future sessions of the Committee.

Yours sincerely



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Annex A

Recommendation	Supporting Actions	Update
<p><u>Strategic Commitment</u></p> <p>1. Political parties in Wales should make a strategic commitment to national residential decarbonisation and stick to it</p>	<p>Action 1.1 – The Welsh Government should publicly commit now to pursuing a 30-year residential decarbonisation programme</p>	<p>Delivered. The Net Zero Wales chapter on residential decarbonisation sets out long term national strategic commitments to achieve 2050 climate change targets.</p>
	<p>Action 1.2 – All political parties at the national and local level should make a clear commitment to supporting the achievement of the targets in Recommendation 2.</p>	<p>Delivered - Co-operation agreement programme commitment ‘15’ references expectations around Net Zero Carbon delivery of infrastructure, which includes housing.</p>
	<p>Action 1.3 – No later than 2025, all new homes in Wales must be built to be low carbon, energy and water efficient and climate resilient. Independent checks must be made to ensure these higher standards are delivered. This will prevent the challenge to retrofit homes becoming larger and more expensive. All homes built with public sector funding should meet these standards no later than 2021.</p>	<p>Delivered. On 1st October 2021, WMs published Welsh Development Quality Requirements (WDQR2021) containing these requirements.</p> <p>The standard contains and expectation that all homes built with public sector funding should meet these standards no later than 2025. This is later than the recommended 2021, but allows alignment with Building Regulations Part L requirements due in 2025 which are on a regular review cycle. 2025 was also the recommendation from the 2019 Independent Affordable Housing Review.</p>

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	<p>Action 1.4 – The Welsh Government should urgently start developing the recommendations and actions in this report into an ambitious programme of action which is ready for implementation in 2021. This must be underpinned by behaviour change principles and a communications plan reflecting them.</p>	<p>Delivered. The Optimised Retrofit programme was established 2020, one year ahead of schedule.</p> <p>£100k of behaviour change activity funded as part of ORP together with significant communication and engagement activity via a specialist agency and landlords own resources to work with tenants. Examples of content are shared below;</p>
<p><u>Set Ambitious Targets</u> 2. The Welsh Government should set ambitious housing targets to meet its ambition of achieving net zero carbon by 2050</p>	<p>Action 2.1 – By 2050 the housing stock must be retrofitted to beyond SAP90 to achieve an EPC Band A rating, recognising that not all homes will be able to achieve this.</p>	<p>Progressing – the proposed new Welsh Quality Housing Standard (WHQS) is likely to require social housing to meet EPC A –SAP 92 within a decade. A highly ambitious standard, as the current energy efficiency rating in the standard is EPC D –SAP65. Not all homes can meet the standard right now, but over time, with decarbonisation of the grid, technology improvements and reduced costs in later years of the programme, it is anticipated the majority will be able to meet the standard.</p> <p>The learning and capacity to deliver similar in other tenures is more challenging. The energy efficiency measure will be determined by UK government (energy is not a devolved matter) and until this is known in 2023, future financial models of support cannot be developed.</p>
	<p>Action 2.2 – Lobby the UK government to support and encourage the further decarbonisation of the energy supply grids because Wales will not achieve the carbon reduction target without it.</p>	<p>Progressing. Grid decarbonisation in Wales has progressed faster than originally anticipated which has made setting EPCA as a standard bold, yet achievable for social homes. Work is ongoing with UK Government and specifically BEIS to ensure they understand Welsh needs and reflect these in their decisions on how to decarbonise the Grids.</p>

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	<p>Action 2.3 – The Welsh Government should urgently commence a 10-year programme to prioritise the retrofit of certain homes.</p> <p>(a) The Welsh Government should set a target of EPC Band A for homes in social ownership and homes in fuel poverty.</p> <p>(b) The Welsh Government should incentivise early adopters to retrofit homes to a target of EPC Band A.</p>	<p>Delivered – Welsh Quality Housing Standard is likely to propose EPCA SAP 92 for existing social homes ahead of formal consultation in May 2022. This will be a programme of 10 years or longer to decarbonise social homes. Many of these households will be in fuel poverty. The Warm homes programme for other tenures is out to formal consultation currently. The response may need to adapt in response to the cost of living increases and demand greater energy efficiency to reduce bills.</p> <p>ORP rewards early movers to retrofit homes to EPCA – ORP is time limited programme for this term of government, so landlords innovating and driving forward in this space have access to generous funding to start their decarbonisation journey.</p>
<p><u>Ensure Quality and Delivery across Tenures</u></p> <p>3. The Welsh Government should put in place the right support and delivery mechanisms across all tenures to help achieve the targets</p>	<p>Action 3.1 – The Welsh Government should fund the creation of and publicly promote a “Home Log book” for every home to guide energy efficiency decisions and investments.</p>	<p>Delivered. The Optimised Retrofit is WG strategic approach to decarbonising homes. The programme is the delivery vehicle and requires each home to have a Whole House Assessment, delivered in accordance with PAS2035 – the best practice standard in conducting assessments. The assessment creates a log book of what works are required to the home to decarbonise it. It is expected this approach will be rolled out across tenures.</p>
	<p>Action 3.2 – The Welsh Government should work with stakeholders and other interested organisations to create and fund an independent quality assurance regime that is appropriate for single homes as well as multi-property projects.</p>	<p>Progressing. It is early stages of ORP and the evaluation and monitoring of the work is underway – focusing on the impact of the works undertaken to decarbonise the home and the tenant lived experience. This will form the basis of what works, and once best practice is established, an appropriate quality assurance regime will be considered, if required.</p>

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	<p>Action 3.3 – Ensure the new quality regime is appropriate and accessible to SMEs in Wales as well as larger firms and that all have access to the skills and training they need to take advantage of a 30 year retrofit programme.</p>	<p>Progressing. ORP has funded the successfully established two Dynamic Purchasing System (DPSs). These procurement frameworks - one for skills and one for low carbon materials have been deliberately set up to support the systemic change needed to decarbonise sectors of the economy. The frameworks allow Welsh SME and microbusinesses to benefit from significant local ORP investment. The aim is to generate prosperity within communities and retain investment value within Wales.</p> <p>Housing officials are also working closely with colleagues in SHELL team, regional skills partnerships and Constructing Excellence Wales to develop a skilled, competent green workforce – known as the ‘decarb army’. The pace of the activity is not moving as quickly as hoped.</p>
	<p>Action 3.4 – Encourage and support businesses in Wales to deliver projects that will result in the best community benefits.</p>	<p>Progressing. All ORP 2 funded retrofit schemes must demonstrate social value the investment brings to the community locality. This could be jobs and training opportunities, enhancements to biodiversity, or wealth generation by using local supply chains.</p>
	<p>Action 3.5 – Encourage and support social landlords to extend their residential upgrade activities beyond their own portfolios to help deliver improvements to homes owned by their occupiers and by private sector landlords.</p>	<p>No action yet. Housing decarbonisation is focused on social housing as this is where Government has most ability to set direction and influence. Learning from this sector will allow rapid expansion into other tenures, when people have learnt the most efficient and effective ways to decarbonise homes. Energy is not a devolved matter. When UK Government’s position is clearer on private rented home energy standards, then WG will look to progress this action.</p>
<p>Incentivising and Supporting Action 4. The Welsh Government, working with others, should develop a holistic package of support across all tenures to motivate and facilitate action</p>	<p>Action 4.1 – The Welsh Government must urgently undertake detailed modelling of the costs associated with the targets set out in Recommendation 2. This will inform priority early action according to tenure, archetype and geography and specifically to verify the 10-year targets.</p>	<p>Progressing. The Future Generation Commissioners report published July 2021 has provided useful additional thinking in this space. Financial modelling has been undertaken in tandem with social landlords to begin developing a financial offer for the sector. Factors modelled include age of stock, archetype and location. Once the new WHQS is finalised, financial models can move from theoretical models to real life funding products.</p>
	<p>Action 4.2 – Continue the WHQS for social landlords and the £108m per year funding associated with it, on the basis</p>	<p>Delivered. The new WHQS standard proposals include Part 3 which sets out decarbonisation standards social landlords are expected to deliver in return for £108m dowry and MRA funding.</p>

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	that they deliver against the stretching targets set out in Recommendation 2.	
	Action 4.3 – Provide guidance and support to social landlords to enable them to meet the challenging new targets in Recommendation 2.	Progressing. The revised WHQS standard is clear and concise. However, to ensure interpretation and expectations are consistent, guidance including case studies and examples have been produced to support landlords and tenants.
	Action 4.4 – Find a financial solution for traditional RSLs who do not currently receive WHQS resources to enable them to meet the stretching targets described in Recommendation 2.	Progressing. OPR 3 running in 2022 to 2023 is likely to test a funding model that includes financial support for traditional RSLs. Testing this approach in the next financial year will shape the future funding for decarbonisation.
	Action 4.5 – Ensure existing public sector funding programmes that support the improvement of homes are amended to align with the outcomes and targets recommended in this report.	Progressing. Welsh government funded housing must meet WDQR2021 or WHQS. Land division has now adopted housing standards for WG sites under development and disposal to ensure consistency across WG public funded schemes. The technical team sit on site meeting steering groups to ensure this is so. Further, Regeneration division is seeking similar alignment of decarbonisation standards for town centre re-development. The standards are new and evolving and harmonisation of standards is a key plank of housing policy going forward.
	Action 4.6 – Make resources available to fund the development of Home Log books, detailed in Recommendation 3, and the funding of uptake by homeowners.	Progressing. OPR fund whole house assessments to generate a log book/passport setting out the works required to the property. The concept of keeping the assessment and subsequent record of works is the next iteration. For social landlord, their asset management systems retain this information to help plan future repairs and maintenance. The challenge lies in other tenures.
	Action 4.7 - The process for homeowners applying for financial support should be as straightforward as possible, and be linked to the need for a Home Log book described in Recommendation 3.	Not actioned yet. Home-owner proposition preliminary work is underway but not mature enough to deliver this recommendation yet.
	Action 4.8 – Urgently create financial support mechanisms to enable owner-occupiers and private landlords who wish to improve the energy efficiency of their properties. Press the UK Government for financial support.	No actioned yet. Groundwork has begun with talks with Development Bank commencing and the Independent Decarbonisation Implementation Group (DIG) tasked with coming up with solutions for owners, which could be rolled out to private landlords.

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	<p>Action 4.9 – Longer term and/or more innovative non-financial solutions need to be quickly identified, piloted, field-trialled and, if successful, rolled out.</p>	<p>Delivered. ORP was established to test and learn how to decarbonise homes, and the impact of field trials and pilots will be shared more widely as quickly as possible. This is to allow housing professionals across tenures to understand how to decarbonise homes.</p>
<p>Data and Knowledge 5. The Welsh Government should collect data about the status and condition of the housing stock to inform future decisions and measure progress towards targets</p>	<p>Action 5.1 – All relevant information, including energy consumption data from before and after retrofit activities, should be used to inform the measurement of progress, policy development and investment. The data collection process will need to inform the Low Carbon Delivery Plan.</p>	<p>Progressing. Data protocols have been put in place to allow energy consumption data collected by landlords to be shared with WG in order to monitor progress of ORP funded schemes. Baseline winter consumption data is being collected and IES systems which collect this data are mandatory condition of ORP grant. The data will inform many aspects of WG Net Zero Wales delivery.</p>
<p>Test and Rollout 6. The Welsh Government should continue to monitor and test new solutions to decarbonise homes</p>	<p>Action 6.1 – Establish a fund of at least £100 million to continue until 2030 to pay for the development of small and large-scale testing of innovative solutions, not limited to technical issues, which will help to decarbonise Welsh homes. The Welsh Government’s successful Innovative Housing Programme (IHP) provides a model for this.</p>	<p>Delivered. The Optimised Retrofit Programme (ORP) has been established in response to this recommendation. Ministers have already committed £70m of funding to social landlords to learn how to effectively and efficiently decarbonise homes. A further £150m has been made available to continue ORP during this term of government, taking total residential decarbonisation investment since 2020 to around £220m.</p>
<p>The Importance of Communities</p>	<p>Action 7.1 - Encourage and support community involvement in the development and delivery of a new programme.</p>	<p>Progressing. The new WHQS standard has included the perspectives of over 1,000 Welsh tenants, and several sessions have been run in partnership with TPAS to ensure the standard reflects the views of tenants. Elements of this model of engagement may be replicated when developing a programme of decarbonisation for residents of other tenures. We are clear – WHQS is a tenant focused standard.</p> <p>ORP also involves significant community involvement activity, largely driven through landlord’s engagement mechanisms. Lack of resident receptiveness to decarb measures to their home is a major risk to</p>

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<p>7. The Welsh Government and its partners should make maximum use of communities, networks, associations and Third Sector organisations in helping to decarbonise homes</p>		<p>programmes – no access to homes, no decarbonisation works. Supplementing landlords work, ORP has funded resident focus group, developed guidance videos and packs, as well as standardised materials for landlords to deploy.</p> <p>Examples of ORP communication can be viewed on the ORP you tube channel – click on link below.</p> <p>(28) Optimised Retrofit - YouTube</p> <p>Revised WHQS and WDQR2021 standards involved significant co-creation with a range of stakeholders. For example, the WHQS task and finish group includes Public Health Wales, Tai Pawb (third sector organisation focused on equalities), TPAS the tenants representative body and the Future Generation Commissioners office amongst others.</p>