

Pwyllgor Newid Hinsawdd, yr Amgylchedd a Seilwaith /
Climate Change, Environment and Infrastructure Committee
Datgarboneiddio'r sector tai preifat / Decarbonising the private housing sector
DH2P_22
Ymateb gan Y Sefydliad Adeiladau Siartredig (CIOB) /
Evidence from Chartered Institute Of Building (CIOB)

Introduction to the Chartered Institute of Building (CIOB)

The Chartered Institute of Building (CIOB) is the world's largest and most influential professional body for construction management and leadership. We have a Royal Charter to promote the science and practice of building and construction for the benefit of society, and we've been doing that since 1834. We have over 1,500 Welsh members that work in the development, conservation, and improvement of the built environment, and thousands more worldwide.

Y Sefydliad Adeiladu Siartredig (CIOB) yw corff proffesiynol mwyaf a mwyaf dylanwadol y byd ar gyfer rheoli ac arwain adeiladu. Mae gennym Siarter Frenhinol i hyrwyddo'r gwyddoniaeth a'r arfer o adeiladu er budd cymdeithas, ac rydym wedi bod yn gwneud hynny ers 1834. Mae gennym dros 1,500 o aelodau o Gymru sy'n gweithio ym maes datblygu, gwarchod a gwella'r amgylchedd adeiledig, a miloedd yn fwy dros y byd i gyd.

We accredit university degrees – including at Wrexham Glyndwr University, with more institutions and courses in Wales pending accreditation – educational courses, apprenticeships, and training. Our professional and vocational qualifications are a mark of the highest levels of competence and professionalism, providing assurance to clients and authorities who procure built assets.

Rydym yn achredu graddau prifysgol – gan gynnwys ym Mhrifysgol Glyndŵr Wrecsam, gyda mwy o sefydliadau a chysiau yng Nghymru yn aros i gael eu hachredu – cyrsiau addysgol, prentisiaethau a hyfforddiant. Mae ein cymwysterau proffesiynol a galwedigaethol yn arwydd o'r lefelau uchaf o gymhwysedd a phroffesiynoldeb, gan roi sicrwydd i gleientiaid ac awdurdodau sy'n caffael asedau adeiledig.

Our [Welsh Manifesto](#) outlines our policy goals for the construction sector in Wales, and we have a significant programme of work covering an array of policy areas. These include climate change and sustainability; equality, diversity, and inclusion (EDI), and mental health. Much of our policy work supports the aims of *The Wellbeing of Future Generations Act*.

Mae ein [Maniffesto Cymreig](#) yn amlinellu ein nodau polisi ar gyfer y sector adeiladu yng Nghymru, ac mae gennym raglen waith sylweddol sy'n cwmpasu amrywiaeth o feysydd polisi. Mae'r rhain yn cynnwys newid yn yr hinsawdd a chynaliadwyedd; cydraddoldeb, amrywiaeth a chynhwysiant (EDI), ac iechyd meddwl. Mae llawer o'n gwaith polisi yn cefnogi nodau Deddf Llesiant Cenedlaethau'r Dyfodol.

The role of sector specific retrofit targets to help drive change

While targets set by UK government are welcome as a display of ambition in the context of climate change, these centrally set targets often belie the detail required to achieve them at the local level. For instance, for the Boiler Upgrade scheme the maximum grant available to most of the public is £5,000, or £6,000 for rural areas. This still leaves thousands of pounds to pay which, given the current cost of living crisis, and with exponentially rising energy costs, many people are unable to afford.

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

Short Term

In the short term the Government can be a market maker for retrofit by re-examining the tax treatment of green building processes. For instance, council tax rebates, or deferring the land transaction tax (formerly stamp duty) on properties that have been purchased – by individuals, groups or businesses - with the sole purpose of improvement.

While finance is crucial, evidence suggests that simply granting money to retrofit without grappling with consumer sentiment does not deliver significant results.¹ For investment to have a meaningful impact, policy should be informed by the heterogeneity of household preferences.

The tax system is frequently used to achieve desired policy outcomes in the built environment. For instance, In Ireland, tax exemptions for refurbishing vacant property, refurbishing properties in city centres, and tax-free incentives for occupiers to rent out rooms in their property have been trialled in recent years.² In Northern Ireland there is tax relief on spending on research and development by construction firms to encourage innovation and increase productivity in the sector.

Furthermore, there is precedent for making alterations to stamp duty specifically to achieve national policy goals. A stamp duty holiday was introduced in the UK in 2020 to incentivise transactions in the property market during the COVID-19 pandemic. Buyers completing a purchase on a property for less than £500,000 before 1 July 2021 did not have to pay stamp duty.³ The government introduced the holiday in the hope of maintaining transactions and driving economic growth.

Given that the tax system – and stamp duty in particular – is frequently used as a lever to achieve wider policy goals, could reductions in Land Transaction Tax in Wales now be used in the context of carbon emissions and sustainability policy?

¹ Tensay Hadush Meles, Lisa Ryan, Sanghamitra C. Mukherjee, Heterogeneity in preferences for renewable home heating systems among Irish households, *Applied Energy*, Volume 307, 2022, 118219, ISSN 0306-2619, <https://doi.org/10.1016/j.apenergy.2021.118219>.

² <https://www.revenue.ie/en/property/stamp-duty/claiming-a-stamp-duty-refund/residential-development-refund-scheme/index.aspx>

³ <https://www.comparethemarket.com/mortgages/content/stamp-duty-holidays/>

Medium term

The CIOB has consistently argued that for any policy initiative in the built environment to be successful, it needs to be accompanied by appropriate resourcing. We urge Welsh Government to publish a resourcing plan to accompany the Optimised Retrofit Strategy.

There is some evidence that retrofit supply-side actors are overlooked or marginalised in retrofit policy design.⁴ We therefore urge Government to engage with industry as they develop policy in this area. Given the risk averseness of the retrofit and renovation sectors, policy needs to offer incentives and solutions that reflect the installer's business motivations. CIOB advocates increased dialogue between policy makers and private businesses, in terms of what is realistically deliverable. Research has found that the most effective policy programmes in the USA engaged with supply contractors on an ongoing basis, so that the perceived benefits of participating in a programme outweigh their costs and compared favourably with a business as usual approach.⁵

Long term

An equivalent Welsh Housing Quality Standard for the private housing sector will need to be established, with a focus on adaptability and retrofitting of properties. Similar pathways to the Target Energy Pathways outlined in the WHQS2023 would be prudent to implement, to give homeowners, landlords, and tenants a clear picture of what they need to do to decarbonise their properties.

This could link with a duty on local authorities to carry out an increased frequency of Housing Health and Safety Rating System ([HHSRS](#)) inspections to ensure that these are being implemented, and that properties remain safe for occupants.

If changes to the tax system to incentivise retrofitting are to be effective, any changes made need to be long term. During the construction process, the investor incurs costs; hence, uncertainty about the continuation of a tax scheme creates risks and disincentivises investment.⁶

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

As outlined, the financial challenges are significant and as such policy strategy on retrofit must be accompanied by an appropriate resourcing plan. Furthermore, the costs of greener heating

⁴ Gooding, Luke Michael and Mehreen Saleem Gul. "Energy efficiency retrofitting services supply chains: A review of evolving demands from housing policy." *Energy Strategy Reviews* (2016): 29-40.

⁵ Aaron Gillich, Minna Sunikka-Blank & Andy Ford (2018) Designing an 'optimal' domestic retrofit programme, *Building Research & Information*, 46:7, 767-778, DOI: 10.1080/09613218.2017.1368235

⁶ Neuhoff, Karsten & Amecke, Hermann & Novikova, Aleksandra & Stelmakh, Kateryna & Deason, Jeff & Hobbes, Andrew. (2011). Using Tax Incentives to Support Thermal Retrofits in Germany.

technologies are significant, and any policy initiative should target a scaled up approach in order to achieve economies of scale.

Practical problems will also need to be overcome: trusted installers for new heating technologies are hard to identify. A lack of public knowledge on the installation of heat pumps, for example, may lead rogue traders to take advantage of people and install a heat pump in a property where it is not appropriate. This is especially a risk for older or other vulnerable people. CIOB Academy already runs several courses on sustainability in construction. CIOB also accredits Higher Education Degrees on topics related to sustainability in the built environment. We would be happy to work with Welsh Government and Senedd Committees to create a ‘badging’ system, creating CPD for the installation of new retrofit heating technologies to ensure that this is seen as a mark of trust.

From a behavioural perspective retrofitting Wales’ housing stock will require a cultural shift, both by industry and by consumers. CIOB recently published a discussion paper on how a cultural shift by industry towards retrofit and away from demolition can be engendered by changes to the tax system.⁷

From a consumer perspective, the benefits of the heating technology, such as lower running costs in the future despite high up front spending, need to be at the forefront of any Welsh Government promotion. Given consumers’ historical reluctance to embrace retrofit, we would recommend a comprehensive national awareness and demand generation campaign. There are significant costs associated with retrofitting a home. Awareness of the benefits is part of addressing this but tapping into existing habits around consumer spending on construction also needs to be part of the strategy.

As part of a public information campaign, organisations such as CIOB, its partners, and third sector organisations in Wales could help Welsh Government share success stories from Optimised Retrofit Programme (ORP), and from private sector properties

To align consumer sentiment and to ensure funding is effective in creating uptake for retrofit the CIOB is proposing a ‘Help to Fix’ loan scheme, which would involve the provision of interest free loans by Government directly to owner occupiers for a large range of measures which, while predicated on improving energy efficiency, would also extend to other measures including loft conversions, extensions, annexes and home improvements. This would leverage the already high demand for home improvements in the economy to improve the energy efficiency of Wales’ housing stock.

There are also well-known issues with Staffing and Recruitment in the industry. The Construction Industry Training Board (CITB) estimates that 12,000 new recruits will be needed in Wales by 2028, most of whom will “deliver improvements to existing buildings to reduce energy demand”⁸, which means training should start now.

Professional bodies like CIOB stand ready to work alongside Government to decarbonise the sector and embrace ways of working that better adhere to the principles of the circular economy. However,

⁷ <https://www.ciob.org/news/scottish-government-urged-to-protect-scotland%E2%80%99s-built-environment-from-unnecessary-and-%E2%80%98cheap%E2%80%99-demolition>

⁸ https://www.citb.co.uk/media/bdrbdlmo/b06414_net_zero_report_wales_v7.pdf (p. 2)

the industry faces several challenges in so doing. To realise the sector-wide shift to embrace the circular economy, a long-term, collaborative strategy will be needed to address skills shortages, consumer preference and awareness, and the existing barriers to embracing circular economy principles.

From an industry perspective, perpetual volatility in demand for construction has led firms, particularly SMEs, to curb capital and education investment because spending on research and development (R&D) brings high fixed costs that are difficult to cut in an economic downturn. Accordingly, the lack of available finance is a major stumbling block for SMEs investing in tools and skills that could help to improve waste management and mitigation and decarbonise work practices. Creating a Green Skills Fund to channel low-cost, long-term loans to SMEs specifically for investment in formal, sustainability focussed R&D would address this and lead to sector-wide improvements in sustainable practices. A similar fund exists in Holland, where the MKB+ (Innovation Fund for SMEs) gives construction firms access to finance to embed innovative new products, services, and processes in their business.

How the right balance can be struck between influencing/incentivising home owners and private sector landlords to retrofit their properties and regulating to increase standards to drive progress

Regulation and influencing the decision to decarbonise owner-occupier tenures should be a balancing act. Greater regulation will likely be needed for the Private Rented Sector (PRS), however. For the former, we have already outlined our view of the possibility of LTT reductions in Wales to encourage retrofit measures, and arguably similar measures could be implemented to encourage improving the EPC ratings of properties.

It is unrealistic to expect every property in Wales will be able to reach EPC A without demolishing and rebuilding some older properties. As such, targets for lower EPC (or alternative rating systems due to issues with SAP/EPC), should be set with regard to the specific nature of the building in questions, rather than having a blanket EPC A policy. While this is admirable as an aspiration, it does not reflect the reality that it is not feasible for many buildings to achieve EPC A. For example, there are many heritage buildings which simply cannot be brought up to A rating, and policy needs to reflect this.

Due to this, we are reluctant to say that every property should reach one specific EPC rating, especially given the difficulties for a property to score higher than EPC B appropriate energy generation and storage systems⁹. It is also questionable whether every property in the private sector will be able to afford the measures needed to reach a higher EPC rating without significant financial intervention from UK and Welsh Governments. As such, it may be more prudent for regulations to include mandatory target energy pathways, unique to individual properties, as we have already outlined and that form a part of the WHQS2023. This may change when technology necessary for decarbonisation, such as solar panels and heat pumps, become cheaper thanks to increased demand and economies of scale.

⁹ https://gov.wales/sites/default/files/consultations/2022-05/draft-whqs_3.pdf (p. 26)

There should be a UK-wide push to ensure all properties are insulated, with Government funding made available to do so. This would hopefully make other energy efficiency measures more affordable for the majority of households. But interest free loans, council tax reductions, and further grants should be on offer to encourage homeowners and landlords to undertake these measures.

Failure to implement energy efficiency measures in a property line with its target energy pathway by a predetermined date should lead to regulatory implications, such as higher LTT when selling an energy inefficient property, or not being able to sell a property until some measures have been undertaken. For properties that successfully undertake measures outlined in their pathways, or that go beyond these to improve council tax reductions or lower LTT could also be made available.

We have, however, already outlined how Welsh Government messaging should shift to ensure that the benefits of retrofit are front-and-centre, and that should equally be the case for – and go alongside – EPC rating improvements. We know that energy efficient properties will be more financially efficient as well, with households spending less on their energy bills in more efficient properties: ensuring that this is common knowledge across Wales is likely to create a behavioural shift and make more people install greener heating technology and take advantages of funding to do so.

On the other hand, stronger regulation for the private rented sector (PRS) will be integral to the success of the private housing sector. The Chartered Institute of Housing's Tyfu Tai¹⁰ report states that:

- The PRS sector accounts for 16% of Wales' housing stock, and is the worst tenure type for energy performance;
- Tenant and landlord engagement, a lack of targeted information & advice for both landlords and tenants, and low trust and communication between tenants, letting agents, and landlords, is likely to drive disengagement;
- Landlords are also prone to "split incentive", where landlords do not receive the benefits – financial, comfort, or otherwise – from energy efficiency measures, so may be less willing to front the cost for their rented properties to do so.

With that in mind, incentivisation for landlords to decarbonise their housing stock is less likely to be successful when compared with owner-occupier tenures. As such, we recommend implementing changes to the Minimum Energy Efficiency Standard (MEES) and bringing the minimum EPC rating landlords much achieve up. Currently MEES guidelines only require an EPC E minimum. To ensure success, MEES regulations will need more regulation, with appropriate financial sanctions for landlords that fail to improve the energy efficiency of their properties.

¹⁰ <https://www.cih.org/media/zbccclbu/0510-ttc-decarbonising-wales-private-rented-sector-v5.pdf> (pp. 2-3)