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Climate Change, Environment and Infrastructure Committee
Datgarboneiddio'r sector tai preifat / Decarbonising the private housing sector
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Ymateb gan Sefydliad Brenhinol y Syrfewyr Siartredig (RICS) /
Evidence from Royal Institution of Chartered Surveyors (RICS)



Committee Response

Decarbonisation of housing: decarbonising the private housing sector

Response by the Royal Institution of Chartered Surveyors (RICS) to the Senedd Climate Change, Environment, and Infrastructure Committee.



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Introduction

On behalf of the Royal Institution of Chartered Surveyors (RICS), can we begin by thanking you for the opportunity to respond to this important consultation that addresses one of the major roadblocks towards Wales achieving its net zero ambition.

The decarbonisation and energy performance improvement of Welsh housing is critical to tackling climate change and as you will see through our response, will also play a role in helping to address the current cost of living crisis and drive-up quality and comfort standards in homes.

About RICS

Established in 1868, RICS is the largest organisation of its kind in Wales for professionals in property, construction, land, and related environmental issues. With 2,500 members in Wales, our professionals work daily to drive up standards in housing, create more energy-efficient homes and measure the effects of climate change.

Our work to support the decarbonisation of housing in recent months includes:

- Advising the Welsh Government Decarbonisation Implementation Group on exploring the role of mass retrofit assessments to target decarbonisation and energy performance works.
- Supporting the Welsh Government with the expansion of Building Passports across the medium-to-high rise building sector, which will enable RMI, safety and sustainability upgrades to be planned holistically – saving money, disruption and increasing transparency for tenants.
- Calling on UK Government to [cut VAT on home improvement works](#), to create parity on new builds and shift the focus to retrofitting existing buildings rather than demolition and construction – reducing the carbon footprint of the sector and preserving historic properties.
- Developing the [RICS Low Carbon Homes Consumer Guide for Wales](#) to provide impartial advice on the services and simple steps available to create more energy efficient homes and reduce carbon and published our '[Retrofitting to Decarbonise](#)' [policy paper](#).
- Collaborating with several Welsh brands (including Monmouthshire Building Society, Sero Homes and Rightmove) and housing bodies to explore the incentivisation of retrofitting and energy efficacy in the private housing sector – helping to identify the existence of a green premium in higher rated EPC properties.

Summary of recommendations

Recommendation 1 – The Welsh Government should review, as a priority, the criteria for any future advice and fiscal support created by the Warm Homes Programme with an estimate 69% of Welsh households potentially in fuel poverty by 2023. This will help support the decarbonisation of homes, and the cost-of-living crisis.

Recommendation 2 – The Welsh Government should consider immediate provision of support to improve the energy performance (not just emergency funding to support the cost-of-living crisis such as the Energy Bills Support Scheme. By UK Government) of EPC E, F and G homes in Wales, who are at risk of seeing an almost £1000 difference in energy bills than an EPC C property.

Recommendation 3 – Clarity on future remits of the Optimised Retrofit Programme should be sought to understand how greater cooperation with the private sector can be expanded following the lack of significant involvement to date.

Recommendation 4 – The Welsh Government should explore opportunities for mandating professionally delivered retrofitting assessments (also known as Whole Home Surveys/Assessments) on properties likely to receive public funding towards decarbonisation and energy improvement works to ensure adequate measures are installed. RICS are currently working on [BS 40104 Assessment of dwellings for retrofit](#) to support this.

Recommendation 5 – All devolved governments and UK Government should

work together to develop a consistent approach towards energy measurement and target setting – with both the Scottish and UK Government’s already reviewing their own EPC improvement plans.

Recommendation 6 – The Welsh Government should call on UK Government to deliver clarity on any proposed energy performance portfolio targets for the financial sector, which will strengthen calls to act and encouraging retrofitting.

Recommendation 7 – The Welsh Government needs to develop a strategy to address properties at risk of becoming ‘trapped assets’ – for example properties identified as uneconomical by landlords for improvement works, disposed of, and then purchased by homeowners with low levels of disposable income in a limited housing market – increasing fuel poverty risks and failing to decarbonise.

Recommendation 8 – The Welsh Government should review the use of exemption registers in a targeted market to ensure data, and the quality of such data, suitably justifies a property being on the register.

Recommendation 9 – The Welsh Government should launch an emergency energy usage reduction fund to support individuals in installing adequate heat proofing and ventilation measures, reducing CO2 emissions and in turn, energy bills.

Recommendation 10 – The government should create an advice service that proactively reaches out to vulnerable private homeowners, rather than one that is reactive and based on inbound interest,

potentially delivered by local authorities, and based on a preferred supplier list for installers to ensure quality.

Recommendation 11 – The Welsh Government should set a clear strategy for the decarbonisation of housing in Wales, including target numbers and dates for properties to meet certain energy performance ratings.

Recommendation 12 – Reform of the planning process should be undertaken to strengthen the need to demonstrate why demolition is the preferred choice for a building over investment in retrofitting. If it is simply an economic choice with marginal differences, the government should explore the potential use of a levy on demolition.

Recommendation 13 – 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.

Recommendation 14 – The Welsh Government should review future building regulations to look at the possibility of mandatory Solar PV (and other measures) on new build properties.

Recommendation 15 – Opportunities should be explored to introduce several funding schemes to help the private housing sector. This can include work with the Development Bank of Wales on potential funding and equity schemes, or simply funding retrofit work, as recommended by the Future Generations Commissioner for Wales, due to the savings on investment through GDP, energy costs and health benefits.

Recommendation 16 – Alongside scaling up the number of retrofit assessments undertaken as suggested in ‘Recommendation 4’, the Welsh Government should also look at implementing a large-scale Building Passport programme to help homeowners know what is required and to better target funding.

Recommendation 17 – Planning systems need to reform to remove the need for approval on simple measures such as the installation of a heat pump. The government should also explore the use of street-wide approved schemes to maximise environmental and economic benefits, such as community heating schemes.

Recommendation 18 – The Whole Life Carbon Assessment, and similar tools, should be utilised by government and local authorities to measure and report on decarbonisation progress.

Recommendation 19 – The Welsh Government should look at the powers it has to introduce target improvements and MEES-style regulation/penalties for owner occupier homes, which would be a catalyst for behavioural change and education.

Recommendation 20 – The Welsh Government should look to incentivise traditional energy installers to upskill and switch to greener technologies, potentially through grants.

Recommendation 21 – Any future retrofit incentive programme should take a comprehensive approach to energy improvement and not target one simple measure, supported by a retrofit assessment to identify priority works.

Recommendation 22 – A review of greater regulation and professional competency of retrofit and decarbonisation professionals should occur, with cooperation by all developed and UK governments.

Recommendation 23 – The Welsh Government should review the Barnett Formula to understand if it is a suitable model for funding decarbonisation based on the demographic of Welsh housing and homeowners.

Recommendation 24 – The Welsh Government should use the ongoing inquiry into upfront property information to review opportunities to understand how consumer awareness can increase about energy performance. For example, in the private rental sector, there could be scope to inform potential tenants about wider costs than just rent and council tax, such as average energy consumption, and thus cost.

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 current approach toward decarbonisation in housing in Wales is severely fragmented - in terms of regulation, support, and financing. To date, a significant amount of investment by Welsh Government has focused on the social housing sector (through initiatives such as the Optimised Retrofit Programme) and those most vulnerable to increasing energy bills (classed in Arbed as having an EPC E, F or G rating). Outside of Minimum Energy Efficiency Standard (MEES) regulation, little has been introduced for the private housing sector in Wales.
- Resources need to be prioritised towards the 1.2 million private homes in Wales – where the greatest carbon footprint is found in the built environment – along with growing energy usage, costs, and comfort challenges. Improved building regulations now mean new build properties already perform above average, and in 2020/21, almost 90% of new build properties were averaging EPC A or B ratings.

As the statistics below demonstrate, only 1 in 5 owner occupied homes in Wales even achieve EPC C or higher – a worrying figure when considering that homes with an EPC E or F rating could pay on average almost £1,000 more a year in energy bills than a similar property with an EPC C rating.¹

Percentage of Welsh houses achieving EPC C or higher

| | |
|-------------------------|-------|
| Existing owner occupier | 20.82 |
| Existing private rent | 30.16 |
| Existing social rent | 55.69 |
| New owner-occupied | 96.63 |
| New private rent | 80.43 |
| New social rent | 99.69 |

Source: [ONS Energy efficiency of Housing, England and Wales, country and region March 2021](#)

- While schemes like Arbed and Nest provided a valuable service, especially for those in the private sector, Audit Wales reported that between April 2018 to March 2021, an estimated 16,042 received free energy efficiency advice (and even less had actual measures installed) – representing only 1% of the total housing market. With recent estimates suggesting almost 69% of Welsh households could be in fuel poverty by the start of 2023, there will be a significant increase in demand for such services.
- Those services, especially Nest, where the current scheme is scheduled to end March 2023, operate in a means testing method that would exclude many of the new households entering fuel poverty, for example, private homeowners in employment, but with little to no disposable income due to increasing cost of living pressures.

¹ Data provided by the [Energy and Climate Intelligence Unit \(ECIU\)](#).

- Similarly, the most significant Welsh Government programme currently active in Wales towards residential decarbonisation, the Optimised Retrofit Programme (ORP), is focused almost exclusively on the social housing sector, which represents c16% of the Welsh housing sector. In comparison, the owner occupier sector, which has virtually no non-private sector support towards decarbonisation or even meaningful regulation, represents c69% of the housing market in Wales.²
- It is understandable that ORP is targeting the social housing sector – not only because tenants are often the most vulnerable to financial pressure, but it is also one of the easiest tenures to regulate and deliver change - as demonstrated through the Welsh Housing Quality Standard. One of the objectives of ORP from its commencement was to develop best practice, supply chains and consumer behaviour understanding that would cascade to the wider private sector.

The second iteration of ORP originally sought to explore opportunities for PRS properties to utilise ongoing work to social homes – however this ultimately failed to yield meaningful results, in part, because many landlords had already taken action due to incoming MEES regulations or because simply, many were not planning any upgrade works at that time – despite the potential for long-term cost savings.

- Where publicly funded schemes for private sector decarbonisation, retrofitting and energy improvements do exist, questions remain on the suitability of what improvements result from such works. For example, in England, the Green Homes Grant did not require a form of retrofit assessment – so it was difficult to evaluate if certain measures installed were done so to optimum levels and at the right stage of the property journey e.g., new heating sources without first having suitable and adequate ventilation and insulation.

This has improved slightly with the current heat pump grant provided by UK Government, which requires no outstanding insulation requirements. Indeed, the Welsh Government Warm Home Fund required a heat pump to be recommended in a retrofit assessment, and ready to be installed, as part of its requirement before releasing funding.

- MEES regulation in the PRS is having an impact based on data, with recent Rent Smart Wales statistics showing approximately 5000 homes with an EPC rating of F and G, out of 205,000. Anecdotal evidence from RICS residential insight points to a change in landlord behaviour – with many opting to undertake improvement works (given the relatively low cost of moving up one EPC rating in a poor performing house) and giving greater consideration to future property investments.
- Questions also remain over the effective use of energy measurement, specifically the current EPC methodology. Although not a devolved matter, it is important to acknowledge limitations in the current SAP EPC framework given a large number of Welsh Government decarbonisation and retrofit programmes are developed and targeted around EPC ratings.

While reform of the EPC process is ongoing, and SAP 10.2 and SAP11 address elements of the challenge, EPCs were never designed to be an energy improvement tool for government – in

² Figures based on March 2020 StatsWales data - <https://statswales.gov.wales/Catalogue/Housing/Dwelling-Stock-Estimates/dwellingstockestimates-by-localauthority-tenure>

part, given domestic ratings are set by estimated usage and cost – rather than real time data. Furthermore, it is important to acknowledge that certain properties, such as historic and listed buildings, naturally have lower EPC grades due to the nature of their structure and fabric – although overall energy performance may exceed that of more modern builds (1919 – 1950/60 housing).

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

- Data is demonstrating that minimum sector retrofit targets, and indeed minimum standards, are helping to drive change in Wales. 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.
- MEES regulation in the PRS is having an impact based on data, with recent Rent Smart Wales statistics showing approximately 5000 homes with an EPC rating of F and G, out of 205,000. Anecdotal evidence from RICS residential insight points to a change in landlord behaviour – with many opting to undertake improvement works (given the relatively low cost of moving

up one EPC rating in a poor-performing house) and giving greater consideration to future property investments.

- RICS research and polling (as seen on page 11) suggests the need for sector-specific targets to drive forward change, especially in the owner-occupier sector. Homeowners know they should act, and indeed many have a basic understanding of some of the measures to take, however, given the significant upfront costs of retrofitting (even with government support), it is difficult to see large-scale uptake by consumers without the introduction of targets and potential penalties.
- RICS also advocates for a greater 'carrot and stick' approach towards support and targets for retrofitting. In many cases, financial incentives alone will not be sufficient to encourage mass-scale retrofitting. As an example, there are growing calls for the introduction of a green stamp duty levy (one of the few fiscal powers the Welsh Government has at their disposal). The principle is simple – a poor-performing home has a higher rate of stamp duty, and if that home increases to a higher energy performance within a set period after purchase, they will get a rebate and potentially additional financial rewards.
- However, while the green stamp duty rewards consumers for retrofitting, the financial return against the cost of installing measures would not be a sufficient motivator in the view of RICS. Given the significant upfront costs of retrofitting required to benefit from the financial return of such stamp duty, homeowners could just pay the increased amount and fail to undertake the work. That said if owner-occupier targets and regulations were introduced, then this would give an additional incentive to act.
- UK Government has also been exploring opportunities to encourage large-scale retrofitting by creating targets for the lending market. Initial proposals by UK Government would see financial lenders give annual declarations of the EPC portfolio of their mortgage book, with a target of 2030 for lenders to achieve an average of EPC C. In the view of RICS, this would be one of the strongest levers UK Government could use to target and drive forward change – and will significantly increase the importance of communication, consumer awareness and the need to act. It will also allow for greater opportunities for green lending products. However, since the consultation closed in February 2021, there has been no update on progressing these plans.
- While RICS advocates the introduction of targets as a stimulus to drive change, we urge the government to consider the unintended consequences, such as the creation of trapped assets or the pushing of homeowners with low levels of disposable income into poor-performing homes - resulting in increased energy costs. Meaningful exemption registers (with a review of the quality of EPC assessments) and increased financial support for improvement work for at-risk properties should be considered. This will be important as it will also help limit risks of entering fuel poverty, increase comfort and quality of life, and reduce potential health challenges resulting from damp and cold homes.

Recommendation 6 – The Welsh Government should call on UK Government to deliver clarity on any proposed energy performance portfolio targets for the financial sector, which will strengthen calls to act and encouraging retrofitting.

Recommendation 7 – The Welsh Government needs to develop a strategy to address properties at risk of becoming ‘trapped assets’ – for example properties identified as uneconomical by landlords for improvement works, disposed of, and then purchased by homeowners with low levels of disposable income in a limited housing market – increasing fuel poverty risks and failing to decarbonise.

Recommendation 8 – The Welsh Government should review the use of exemption registers in a targeted market to ensure data, and the quality of such data, suitably justifies a property being on the register.

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

Short term

- Wales and the UK is suffering from a significant squeeze on the cost of living, with an estimated 69% of Welsh households expected to be in fuel poverty by the start of 2023. This is exacerbated by Wales having some of the oldest housing stock in Western Europe, and some of the lowest median incomes in the UK too.

The Welsh and UK Governments are currently investing heavily in short term interventions to support the cost-of-living crisis, such as the £150 council tax rebate and the Energy Bills Support Scheme. However, while these are short term interventions to help with rising fuel bills, further government support should be launched to reduce the cause of high energy usage to begin with, and in turn, the carbon footprint of the home.

For example, the Energy Saving Trust estimate that a typical semi-detached home, could have cavity wall insulation installed (if suitable) for £1,200, saving energy costs c£300 per year and importantly also reducing CO₂ emissions by an average of 670kg³. As a recent RICS survey showed, consumers are having to prioritise immediate financial costs, even though long-term benefits would support them.

- Advice and support services are limited in Wales, with Arbed now closed and the current Nest scheme running until March 2023. There is a need to undertake a targeted support service approach and the creation of a Wales-wide, open to all programme too.

A targeted support service should be created to help those most vulnerable in the private housing market to show them what advice and financing is available – as well as delivering the works. RICS is thinking of pensioners who may own their home outright, but without proactively approaching support themselves, may well fail to take action to decarbonise their home, and be faced with higher energy costs. Such a service could be administered by local authorities and use a network of trusted and preferred installers to deliver such works.

³ <https://energysavingtrust.org.uk/advice/cavity-wall-insulation/>

Recommendation 9 – The Welsh Government should launch an emergency energy usage reduction fund to support individuals in installing adequate heat proofing and ventilation measures, reducing CO2 emissions and in turn, energy bills.

Recommendation 10 – The government should create an advice service that proactively reaches out to vulnerable private homeowners, rather than one that is reactive and based on inbound interest, potentially delivered by local authorities, and based on a preferred supplier list for installers to ensure quality.

Medium term

- Wales lacks a decisive political targets for decarbonisation of private housing. Net Zero Wales sets out an ambitious programme of activity in the residential sector, but actual targets for retrofitting and energy performance is reserved for the social housing sector and new builds - especially through improved building regulations. This is not simply a Welsh problem, even at a UK level the ambition for the owner occupier sector is simply 'as many homes as possible EPC C by 2035, net zero by 2050'. Without tangible targets, it will be difficult to plan, fund and resource decarbonisation strategies.
- In the UK, there is a considerable tax imbalance where VAT applies for most repair, maintenance and improvement works, yet removed entirely in cases of demolition and new build. This goes strongly against the principles of the circular economy and ambition to reduce embodied carbon where simply upgrading and retrofitting an existing property is preferable. While VAT is not devolved, the Welsh Government and planning authorities can use their powers to strengthen the need for a business case for demolition over retrofitting to be presented first.

Furthermore, with in-action by UK Government on the matter, the Chartered Institute of Building (CIOB) recently published a report in Scotland that looked at the challenge facing the Scottish Government on this matter and recommended that a potential levy be introduced for demolition to create a limited form of parity.⁴

- Education remains a significant challenge for decarbonising house. While RICS welcomes the creation of retrofitting academies in Wales and the introduction of the Built Environment GCSE and A Level, there remains a significant education deficit and disparity. For example, Degree Apprenticeships in surveying, planning and architecture - skillsets that have a significant role to play in decarbonisation - do not receive funding in Wales, yet do in England – despite a climate emergency declaration. As a result, RICS have cases where students have simply sought education and employment outside of Wales, further exhausting the future skills required for this work.
- Simple reforms to planning regulations can also achieve decarbonisation. While approximately 90% of new build homes are achieving EPC A or B, many, despite being in favourable locations, still fail to have simple measures such as Solar PV installed. For developers, the lack of Solar PV by default is simple in many cases – it is not reflected in increased property values to offset additional costs. In contrast, the EU is set to make Solar PV installation, where possible, mandatory for all domestic and non-domestic new build properties within the next few years.

⁴ <https://www.ciob.org/industry/policy-research/levelling-playing-field>

Recommendation 11 – The Welsh Government should set a clear strategy for the decarbonisation of housing in Wales, including target numbers and dates for properties to meet certain energy performance ratings.

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Recommendation 14 – The Welsh Government should review future building regulations to look at the possibility of mandatory Solar PV (and other measures) on new build properties.

Long term

- Financing remains one of the most significant challenges to overcome. The Future Generations Commissioner for Wales predicts that a national programme of investment in decarbonisation of housing will be required – at a cost of £15bn by 2030. In return, that investment is estimated to save over £8.3bn in energy costs (with that figure based on pre-April 2022 data), generate £19.32bn in additional GDP and save over £4.4bn in associated health, social and environmental benefits.⁵
- A regular theme among homeowners RICS has engaged with to understand attitudes towards decarbonisation is cost. Many do not have the funds to pay for the work up front, overall energy cost reductions don't result in financial benefit, and the only return on investment is currently in property sales, where RICS estimates that on average, improving a home's EPC rating by two or more, can typically increase sale value by 12%. That said, there is a significant geographic discrepancy too – where £25,000 spent on retrofitting in Southeast England could see a similar uplift in value, such a cost in parts of Wales would not be reflected.
- The Welsh Government could explore financing opportunities it possesses, such as equity schemes and the Development Bank of Wales. For example, 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.
- The lack of data is a major challenge for decarbonisation. At present, many homes have retrofit work installed but without a holistic, independent retrofit assessment delivered first. This can cause problems in the quality of the work. Furthermore, if the government

⁵ <https://www.futuregenerations.wales/wp-content/uploads/2021/07/ENG-Exec-Summary-Financing-the-decarbonisation-of-housing-in-Wales.pdf>

embarked on a large-scale retrofit assessment programme, the results would enable government to greater target at risk properties, those easiest to retrofit and allocate sufficient funding. Such a large-scale retrofit assessment programme could also generate Building Passports, which will create a central location for information to a specific building – helping to support current and future homeowners, policy makers, and as you will see below, planning.

- Several popular retrofit measures currently require a degree of planning permission, such as heat pump installation and in cases of conservation and listed properties, some forms of insulation – increasing pressures on under-resourced planning authorities. Opportunities should be investigated to loosen permitted development rights on retrofit measures to ease the pressure on the planning system.
- As referenced above, there are opportunities to utilise data, large-scale retrofit assessments and Building Passports within planning. This is because, in many cases, retrofitting makes more economic and environmental sense when incorporating multiple dwellings and units. For example, in a row of terrace houses, solid wall insulation, which can often have the biggest cost and carbon benefit of any type of insulation, is most effective if the entire terrace has the work undertaken at the same time. Building passports could help identify where such opportunities are possible, allowing for automatic planning approval, and to support funding the entire works at once.
- There is an important need to also ensure adequate measurement and tracking of decarbonisation work occurs, in part to record the effectiveness of retrofit work on a property, but to ensure it is net zero verified. RICS have developed the [Whole Life Carbon Assessment](#) guide to support professionals in measuring decarbonisation and net zero verification. The guide, already used, by the Mayor of London's office for tracking decarbonisation, and the Welsh Government have recommended its use in the ongoing Welsh Housing Quality Standard. The Welsh Government should look to expand its use to ensure effective tracking of future decarbonisation strategies.

Recommendation 15 – Opportunities should be explored to introduce several funding schemes to help the private housing sector. This can include work with the Development Bank of Wales on potential funding and equity schemes, or simply funding retrofit work, as recommended by the Future Generations Commissioner for Wales, due to the savings on investment through GDP, energy costs and health benefits.

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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.

- RICS recently commissioned a large UK-wide survey to examine consumer attitudes towards retrofitting and decarbonisation, with over 4,300 respondents helping identify where the significant challenges sit relating to financial, practical and behavioural thinking in the private housing sector. The key findings include:

- When asked why a homeowner has not installed energy efficient upgrades and undertaken retrofitting of their home, **51% (46% in Wales) stated that the cost was too high. 41% (54% in Wales) also said that the need to prioritise finances** on the current cost of living was a priority.
- Only **8% of respondents highlighted that retrofitting being complicated** to understand was the reason they have not acted yet.
- **55% of respondents** in Wales and the UK, would be more encouraged to undertake decarbonisation and retrofitting works if it **made their property more attractive towards prospective buyers.**
- When asked how much a homeowner would expect to pay to make their home greener if it made the property value more attractive, **55% (59% in Wales) would pay up to £5,000.**
- **79% of respondents** in Wales and the UK would want to see retrofitting and decarbonisation **works undertaken on their property imminently if it meant a reduction in energy costs** and support towards the cost-of-living crisis.

Source: RICS YouGov Polling June 2022

- As highlighted above when discussing the role of targets, the lack of significant regulation and penalties makes focusing consumer minds on acting to retrofit difficult. Although financial products and loans are already available, take up is minimal. If, however, greater regulation came into force, such as the requirement for lenders to achieve EPC C averages by 2030, this will be a major catalyst for change – due to the risk of struggling to remortgage or secure a new mortgage without committing to retrofitting within a certain time, or the risk of devaluing your home.
- The lack of regulation and legislated targets also makes communicating the need to act harder for those who can influence a consumers' thinking. For example, an RICS surveyor, when undertaking a home survey, will flag risks to the property. At present, flagging the need to retrofit a home rarely is a priority to a new buyer – however highlighting that failing to retrofit will damage future values and mortgage access, would carry greater strength – but only if in regulation. Similarly, when purchasing a property, lenders and mortgage brokers will be in a stronger position to communicate the benefits of green products – something which could change with a growth in upfront property information. This, however, depends on UK Government taking decisive action on lender reform.

- A growing number of governments and organisations are now of the opinion that without large-scale intervention, little progress will be done. The Future Generations Commission for Wales has said that without significant public funding, little progress will occur. Other governments are taking radical action too – such as in Italy where the government has introduced a ‘superbonus’ scheme, offering 110% funding for retrofit works – with the last 10% for offsetting taxes. This was done in response to the need to stimulate the economy in a property market with a large number of older homes, but also recognising its aging population, low incomes, and growing fuel poverty.
- The skills required to deliver this programme of retrofit is essential to address. Education, such as the Built Environment GCSE and calls for greater Degree Apprenticeship funding is important, but so is upskilling and change within the supply chain.

The Social Housing Decarbonisation Fund Demonstrator by UK Government highlighted the extent of the skills and supply chain scale in the UK and Wales – with 17 local authorities signed up, 9 failed to deliver any retrofit and only one achieved its goal. Access to materials and labour was the most significant challenge to those local authorities, with a review of the scheme finding:

- UK Government estimated there were upwards of 4,000 heat pump installers in the UK – a report by the Independent Networks Association show’s there is actually less than 1,200.⁶
 - 70% of air source heat pumps are currently imported and only one manufacture currently makes ground source heat pumps in the UK.⁷
- 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. Furthermore, while UK Government have removed VAT on the installation cost of certain retrofit products, supply chain VAT for manufacturing this technology is still in place. New building regulations on the use of fossil fuel heating systems could be a catalyst for this change, but this will need to be monitored closely.
- The Green Homes Grant Voucher Scheme review by the National Audit Office should help the Welsh Government understand the challenges facing any future mass-scale, private sector retrofit programme. Key findings include:
 - Delays in issuing vouchers (i.e., cash grants), resulted in delays and withdrawal of applications – 52% of applications were withdrawn or rejected.
 - Certified installers were difficult to secure – out of 880 TrustMark registered retrofit installers, only 248 registered to participate in the Green Homes Grant – with most citing the difficulty in recertification and registration process, and limited window for applying as the reason for not joining.

⁶ <https://www.building.co.uk/news/less-than-half-the-number-of-qualified-heat-pump-installers-than-government-claims-report-finds/5112269.article#:~:text=The%20Department%20for%20Business%2C%20Energy,pump%20installers%20in%20the%20UK.>

⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943712/heat-pump-manufacturing-supply-chain-research-project-report.pdf

- The scheme gave priority to installing low carbon heat technologies and not installing energy efficiency doors, windows, and insulation – something Nesta commented on in an insight workshop with RICS, as one of the easiest and cheapest measures to install and deliver increased thermal comfort.
- No retrofit assessment was required ahead of placing an application, meaning there was an increased risk to installing the wrong measures in a home, or not prioritising another works such as insulation and ventilation.

While the Green Homes Grant Voucher Scheme did not apply in Wales, it does help to highlight the scale of the challenge in any potential green incentive.

- RICS is also concerned about the lack of professional qualifications, independence, and regulation in the retrofit market. At present, many homeowners only seek the advice on an installer of a certain measure, rather than taking a whole home assessment first. The installer, naturally, will prioritise their product and work over other measures. This is leading to problems already, with unsuitable measures being installed in certain properties such as spray foam insulation. As an example, homeowners will typically employ an RICS Surveyor to undertake a Home Survey, which identifies the risks to a property and can provide an independent valuation of the home. Surveyors must declare any conflict of interest, are regulated by RICS, and must adhere to strict CPD requirements. No such requirements exist for retrofit assessors and experts.
- The British Standards Institution is currently developing BS 40104 Assessment of dwellings for retrofit as a benchmark for the standard in retrofit assessment, however this will need to be mandated by government for all suitable professionals to follow when doing the work. While regulation of such a marketplace will and should sit with UK Government (in part due to the considerable number of cross-border businesses), it is certainly an area Welsh Government could call for action on for greater consumer and taxpayer protection.

Recommendation 19 – The Welsh Government should look at the powers it has to introduce target improvements and MEES-style regulation/penalties for owner occupier homes, which would be a catalyst for behavioural change and education.

Recommendation 20 – The Welsh Government should look to incentivise traditional energy installers to upskill and switch to greener technologies, potentially through grants.

Recommendation 21 – Any future retrofit incentive programme should take a comprehensive approach to energy improvement and not target one simple measure, supported by a retrofit assessment to identify priority works.

Recommendation 22 – A review of greater regulation and professional competency of retrofit and decarbonisation professionals should occur, with cooperation by all developed and UK governments.

- RICS have already commented on several occasions in our response to the need for greater regulation and incentives together.
- MEES in the private rental sector is having an impact, with a growing number of properties now meeting regulations, and only an estimated 5000 failing to meet

requirements or being placed on an exemption register. It is also important to note that alongside MEES, landlords can also benefit from the boiler upgrade scheme.

- A 'carrot and stick' approach is needed, as demonstrated in our example of a green stamp duty – which without regulation, could simply see homeowners simply pay more tax rather than act.
- It is important to ensure that regulation does not simply result in asset sell-off, and shifting poor-performing, and expensive houses to upgrade to the lower end of the market. RICS has already seen evidence that some social and private landlords have simply disposed of inefficient and expensive-to-retrofit housing stock, thus helping on paper to meet regulations, but not actually decarbonising the housing stock. The nature of the housing market in recent years and the limited stock, has also meant that consumers desperate to get on the housing ladder, may have ended up purchasing those disposed of homes due to the price and availability – and now facing high energy bills and usage, as well as calls to retrofit.

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

- There are varying degrees of influence on reserved matters the Welsh Government are effective at. Within the private rental sector, MEES, while set by UK Government, has been delivered in Wales with the support of Rent Smart Wales – helping to drive compliance and direct resource and advice to landlords. Within the owner occupier sector, outside of building regulations, there has been little influence on reserved matters.
- The Welsh Government can set energy performance targets and regulations, but funding any incentives or programmes will either need to be drawn down from the existing Welsh Government budget or secured through UK Government.
- One of the most powerful levers to driving change in the owner occupier sector will be the reforms on mortgage lenders to meet EPC C averages by 2030. However, UK Government has not made any formal announcement of these plans, and despite its potential to both incentives and regulate the market, Welsh Government has little say on this matter. Indeed, many of the private financing solutions to decarbonisation will sit at a UK level.
- Proposed changes in upfront property information required at a point of sale, driven by the Levelling Up & Regeneration Bill and the Law Society, could present opportunities for the Welsh Government to review consumer information in Wales on energy performance and decarbonisation needs.
- When looking at any public schemes, the Welsh Government will still require significant funding from UK Government to finance any major improvement programme. Further research will need to be undertaken to understand if the Barnett Formula is the correct funding model to use, given Wales has a disproportionately high number of older homes and lower levels of disposable income.

- There are certain matters RICS recommends will require a joined-up approach between governments, to ensure consistency and supply chain access. For example, any reforms to EPCs should be done at a UK-wide level to ensure a consistent methodology is created, even though targets can vary between nations. Any investment in upskilling and supply chain incentives should also consider that many firms will work across the UK. RICS talked about the importance of creating a more regulated, qualified marketplace for retrofitting and installers, this again should be delivered at a UK level due to the high proportion of cross-border work.
- There are also a growing number of homeowners who have switched to 'green energy tariffs,' thinking in part it can help to remove their reliance on fossil fuel energy in their homes but are also seeing their energy bills increase significantly. This is in part due to the nature of the National Grid and apportioning costs from their overall source. This is important because although it is a UK-level influence, it means there is no financial incentive for homeowners in Wales to switch to a greener provider.

Recommendation 23 – The Welsh Government should review the Barnett Formula to understand if it is a suitable model for funding decarbonisation based on the demographic of Welsh housing and homeowners.

Recommendation 24 – The Welsh Government should use the ongoing inquiry into upfront property information to review opportunities to understand how consumer awareness can increase about energy performance. For example, in the private rental sector, there could be scope to inform potential tenants about wider costs than just rent and council tax, such as average energy consumption, and thus cost.