

**Welsh Government's response to the National Assembly for Wales' Climate Change, Environment and Rural Affairs Committee report - Low Carbon Housing: the Challenge**

**Recommendation 1**

**The Welsh Government must prepare and publish a ten year low carbon housing strategy. The strategy must include milestones and targets and must deliver, within its lifetime:**

- **The retrofit of all houses in fuel poverty in Wales to zero carbon in operation standards;**
- **All new build houses in Wales to be built to zero carbon in operation standards;**
- **A complimentary planning and building system with low carbon and energy efficiency at their centres, and supported by rigorous, independent inspection regimes;**
- **Financial incentives to encourage buyers and owners to buy low carbon housing and invest in retrofit measures;**
- **Funding interventions that maximise the impact of Welsh Government investment in low carbon housing; and**
- **A fully trained workforce, ready to construct and improve homes using the latest technologies.**

**Response: Accept in principle**

Welsh Ministers have already committed to the development of a new programme of action which will decarbonise homes in Wales by 80% by 2050 and that will need to have clear milestones and targets. We are currently developing this programme using specifically commissioned independent research to provide a strong evidence base and the Decarbonisation of Homes Advisory Group, which is made up of a wide range of external stakeholders, who are helping us to develop and then deliver the programme.

At the moment it is not possible to support the Committee's recommendation in full as it is still unclear what the research and the Decarbonisation Advisory Group will recommend to Ministers. That Report is due in Summer 2019. However we have asked the Group to, amongst other things:

- **Recommend appropriate types of action and support that might be taken by all key stakeholders, and not just Government, to deliver a programme in the short, medium and long term;**

- Analyse the costs, value, levers, incentives/disincentives, challenges and opportunities represented by individual and collective sets of action;
- Recommend appropriate types of support and interventions needed to achieve the aims of the programme;
- consider how actions might be implemented e.g. by tenure, area, income or construction type or a combination of all these approaches

The challenge of new homes will be dealt with through Building Regulations.

**Financial Implications** – these can only be determined once the likely components of a proposed new programme are clearer.

## **Recommendation 2**

**The Welsh Government should revise Part L of the building regulations to increase the required energy efficiency of new homes. It should set out a clear timetable to move to zero-carbon in operation, so that house builders, the supply chain and skills providers can prepare for these changes.**

### **Response: Accept**

Part L of the building regulations (Conservation of fuel and power) is currently being reviewed to increase the energy efficiency of new homes and deliver as a minimum nearly-zero energy (NZE). I will consider imposing more stringent standards if NZE does not meet our energy ambitions.

I accept the need for a timetable to move to zero-carbon and, subject to occupiers' behavioural variations and preference limitations, standards should relate to what might be reasonably expected in use. As part of the work to deliver the next changes to Part L we will identify opportunities for future improvements beyond the current review and the timetable for achieving them.

**Financial Implications** – Any additional costs will be drawn from existing programme budgets.

### **Recommendation 3**

**The Welsh Government should ensure that the inspection regime is robust and resourced appropriately to underpin confidence in low carbon housing. The Welsh Government should introduce a quality mark which:**

- **assesses the performance of energy saving technology “in operation”;**
- **places an obligation on the installer to ensure the required performance is delivered or repair or replace the technology; and**
- **will be independently designed, inspected and enforced.**

### **Response: Accept in principle**

Through our own programmes we are driving high standards of analysis of homes and measure installation.

In addition, the Decarbonisation of Homes Advisory Group is considering issues of customer confidence in their work.

The Warm Homes Nest and Arbed 3 contracts both stipulate whole House Assessments are undertaken to ensure correct energy efficiency measures for the dwelling are identified and subsequent installations must be undertaken to PAS 2030 2017 standard.

To ensure a rigorous quality management approach Welsh Government has procured an independent Quality Assurance and Audit service, to undertake sample audits of activity undertaken by the Warm Homes Scheme Managers across the entire customer journey i.e. Whole House Assessment, Work in Progress and Post Installation audits.

The UK Government is responsible for setting standards and have work underway through the ‘Each Home Counts’ review’s development of a Quality Mark.

The Each Home Counts review was set up by the UK Government to consider issues relating to consumer advice, protection, standards and enforcement in relation to home energy efficiency and renewable energy measures in the UK.

The review, chaired by Prof. Peter Bonfield, resulted in a report published in late 2016. The review makes a number of key recommendations. The review is now developing elements recommended in the report including a consumer protection framework for the energy efficiency, renewable energy and home improvements sector.

This includes a new quality mark for retrofit measures with a launch expected later in the year.

Welsh Government will consider the impact of the UK Government developments.

**Financial Implications** – Financial implications are unclear. However, it is expected that there will be no cost to Welsh Government following UK Government's implementation of a Quality Mark.

#### **Recommendation 4**

**The Welsh Government should undertake and publish within the next 12 months a comprehensive cost and benefit analysis of retrofitting to zero carbon in operation all households that are in fuel poverty.**

#### **Response: Accept**

We already have plans to commission a cost and benefit analysis of retrofitting homes and that will include households that are in fuel poverty.

**Financial Implications** – The costs of undertaking this work are already built into existing research budgets.

## **Recommendation 5**

**The Welsh Government should continue to invest in and expand the current retrofitting schemes under Arbed 3. The Advisory Group on the Decarbonisation of Existing Homes should report to the Committee on the feasibility of retrofitting homes under this scheme by “type” of dwelling.**

**Response: Accept in principle**

**It would not be for a Ministerial Advisory group to report to a committee of the Assembly**

We are investing a further £104 million in *Welsh Government Warm Homes* for the period 2017-2021. This will enable us to improve up to 25,000 homes (Arbed (3) contribution 6000 homes). Our investment will also lever in up to £24 million of EU funding, in addition to funding from the UK Energy Company Obligation (ECO). We will report on the type of dwelling in our annual reports for Arbed 3.

Research being undertaken by the Decarbonisation Advisory Group will inform future development and/or expansion of the Warm Homes Programme, as will delivery of the current Programme.

**Financial Implications** – The Warm Homes Programme directs significant existing funding in fuel poverty alleviation through the direct investment in properties. The new programme commenced in April 2018 and will operate beyond the Government term. Continuing and expanding the programme will require a significant future investment decision by Welsh Ministers, which will be informed by the wider research and Programme performance at that time.

## **Recommendation 6**

**The Advisory Group on the Decarbonisation of Existing Homes should report to the Committee on how it plans to encourage the “able to pay” and low income homeowners to retrofit energy efficiency measures.**

### **Response: Reject**

The Advisory Group was established by the Minister for Housing and Regeneration and will be reporting to her in 2019. However, as explained in the response to Recommendation 1 the Group has been asked to consider appropriate types of support and interventions needed to deliver a new programme of actions and to consider how those actions might be implemented e.g. by tenure and income.

The Minister for Housing and Regeneration will be happy to discuss the Advisory Group’s recommendations with the Committee in due course.

**Financial Implications** - None as this recommendation has been rejected. The costs of the work to develop a new programme are being met from within existing budgets. The financial implications of “encouraging the able to pay and low income homeowners” can only be considered once the Advisory Group has made recommendations on this issue.



## **Recommendation 7**

**Training and skills should be central to the Welsh Government's long-term low carbon housing strategy. The Welsh Government must ensure there is sufficient investment in training provision and appropriate equipment needed to undertake the training.**

### **Response: Accept in Principle**

Through Regional Skills Partnerships and various programmes of support, the Welsh Government already provides sufficient investment in training provision to ensure the construction sector has the appropriately skilled workforce to deliver its targets for energy efficient homes. As stated in Prosperity for All, Regional Skills Partnerships (RSPs) are at the centre of Welsh Skills Policy. RSPs have a role not only to collate and analyse labour market information to provide the Welsh Government with information on existing provision levels against current trends but also to work with employers and significant development projects to project future skill needs. They provide annual reports that allow the Welsh Government to monitor and, if necessary, re-position mainstream provision to meet current and future labour market needs.

RSPs have substantially increased their employer focus and have developed robust employer engagement strategies to capture the skills needs of the region and, in particular, the skills needs associated with regional infrastructure projects and priority sectors, of which construction is one. Each RSP is also chaired by an employer.

The Welsh Government recognises that having appropriately skilled, environmentally-aware practitioners in Wales' built environment workforce is crucial to the economy and to address this challenge we are taking action quickly to deliver on our pledge to create a minimum of 100,000 quality apprenticeships for all ages in this Assembly term. We also recognise that the whole Apprenticeship system must be more flexible and responsive to the ever and more rapidly changing needs of industry. We have embedded employers into the decision-making structure through the Welsh Employment and Skills Board which advises the Welsh Government on apprenticeship development to ensure alignment with employer need

Where a college needs to develop tailored training courses and programmes to meet the specific needs of an employer, we are providing funding via the Skills Priorities Programme. This programme enables FE institutions in Wales to respond to key emerging technologies and the needs of employers. Limited capital purchases are allowed where they explicitly support the delivery of higher level skills and qualifications. In addition to the above provision, for the 2018/19 academic year, the Welsh Government announced an additional £10m Skills Development Fund to support the upskilling of adult learners in areas where employers via their Regional Skills Partnerships have indicated is a priority in the region.

**Financial Implications** – The costs of undertaking this work will be built into existing budgets.

### **Recommendation 8**

**The Welsh Government should report to the Committee within 12 months on the measures being put in place to ensure the construction sector has the appropriately skilled workforce to deliver its targets for energy efficient homes.**

#### **Response: Accept in principle**

Through Regional Skills Partnerships and our various Welsh Government programmes of support, measures are already in place to ensure that the construction sector has the appropriately skilled workforce to deliver its targets for energy efficient homes. We will provide an update on progress to the Committee within 12 months.

**Financial Implications** – The costs of undertaking this work will be built into existing budgets.

### **Recommendation 9**

**The Welsh Government should report to the Committee within 12 months with an assessment of the impact of Brexit on skills and labour supply in the construction sector.**

#### **Response: Accept in principle**

We will continue to work with Regional Skills Partnerships across the three regions to identify and address sector specific skills gaps and issues that might arise as a result of challenges such as Brexit. We will provide an update on progress to the Committee via RSPs.

**Financial Implications** – The costs of undertaking this work will be built into existing budgets.

### **Recommendation 10**

**The Welsh Government should prepare and publish within the next 12 months a report on the options available to it to leverage funding to deliver low carbon housing at scale through both retrofit and new build.**

#### **Response: Accept**

The Advisory Group on the Decarbonisation of Homes has been asked to consider the financial implications of a programme of action to deliver our 80% reduction target by 2050. This is due in 2019.

**Financial Implications** – The costs of the work to develop a new programme are being met from within existing EPS staffing allocations.

## **Recommendation 11**

**The Welsh Government should work with major mortgage providers in Wales to incentivise preferential lending rates for low carbon homes and report back to this Committee within 12 months on progress.**

### **Response: Accept**

The Advisory Group, which includes UK Finance, has been asked to consider how to retro fitting of homes to meet our carbon targets should be achieved.

The Group has representation from UK Finance which represents nearly 300 of the leading firms providing finance, banking, markets and payments-related services in or from the UK.

The LENDERS Project has provided a formula for affordability assessments which takes into account the energy efficiency of the property, and can provide additional borrowing for more efficient homes. The Welsh Government is leading the way and demonstrating to mortgage providers how simple it is to adopt the formula, introducing it into the Help to Buy Wales affordability calculator in June this year.

**Financial Implications** – The costs of the work to develop a new programme are being met from within existing EPS staffing allocations.

## **Recommendation 12**

**The Welsh Government should ensure that any funding to stimulate the house building market, such as the Stalled Sites Fund, is contingent on the finished building being zero carbon in operation.**

**Response:** Reject

The Welsh Government fully accepts and recognises the importance of moving towards zero or low carbon homes, and this is something we will work towards. However, we do not wish to introduce this into all schemes at present, but rather introduce this type of requirement over a period of time. The Wales Stalled Sites Fund, for example, is designed to help SMEs to build homes. Whilst moving towards zero carbon build standards and considering this as part of any applications is something we will do, we wish to establish the scheme and build a cohort of developing SMEs before we introduce such a requirement.

The review of Part L of the Building Regulations, in conjunction with our work through the Innovative Housing Programme looking at new models of homes, will inform our decisions on what we require to meet our zero carbon commitments, while supporting stimulation of the house building market.

**Financial Implications** – None as this recommendation has been rejected.

### **Recommendation 13**

**The Welsh Government should re-examine the case for aligning the Land Disposal and Transactions Tax to the energy efficiency of a property and report to the Committee on this within 12 months.**

#### **Response: Reject**

The Welsh Government recognises the devolution of taxation powers provides an opportunity to design Welsh taxes to improve the efficiency and effectiveness of the devolved tax system and to ensure a focus on uniquely Welsh needs and priorities. A recommendation of “A smarter energy future for Wales”, published by the previous Environment and Sustainability Committee, “to explore linking the cost of stamp duty land tax to the energy performance of a house to start to increase the value of energy efficient homes” was previously accepted by the Welsh Government. The 2017 tax policy work plan therefore included a commitment to “explore whether the devolved tax system could help to incentivise more energy efficient homes.”

Any change to the devolved taxes needs to be carefully considered to ensure that it would achieve the desired policy outcome, be cost-effective and not create opportunities for avoidance. In 2017, the Welsh Government explored the need for tax-based intervention to complement existing levers to incentivise energy efficient homes. This work involved contributors from across the sectors and focused on understanding the existing evidence base and identifying whether there is a case for change. Analysis was also undertaken of existing or historic schemes within the UK and internationally where taxation has been used as a lever to incentivise energy efficient homes. The conclusion of this work indicated there is a case for further action to drive residential energy efficiency improvements, particularly in the able-to-pay sector but more targeted grants and improved government communication should be prioritised over changes to taxation.

However, the Welsh Government remains committed to consider all relevant evidence and the work of its Advisory Group on the Decarbonisation of Homes will be considering what a new programme of action should look like to and how that can be achieved. Should further evidence come forward from the Group which supports the case for changes to taxation as a more productive way to drive energy efficiency improvements, the Welsh Government will be happy to re-examine the case.

**Financial Implications** – None as this recommendation has been rejected.