

## Energy Security and Net Zero Committee

### Heating our Homes Inquiry

#### Response from the Northern Housing Consortium

The Northern Housing Consortium (NHC) is the ‘Voice of the North’, working with local authorities, housing associations and Arms-Length Management Associations (ALMOs). Our members manage 9 out of 10 socially rented homes in the North. We work with members to influence the national policy agenda, using insights from our member engagement activities and a robust evidence base, including insight from our annual state-of-the-North [‘Northern Housing Monitor’](#).

#### Summary:

1. There are **3.8 million homes in the North beneath EPC C. Upgrading these, so they are warmer, cheaper to heat and clean energy ready is an urgent priority.**
2. Progress in the North’s social rented sector is promising but is at risk without further funding. **The next Spending Review must result in an ambitious programme of investment in home energy efficiency of £6 billion per annum across all tenures.**
3. Local and combined authorities in the North are committed to net zero but need **additional powers and funding** to maximise their contribution to this transition.
4. Improving the energy efficiency of our homes will provide significant opportunities and challenges within the labour market. **Government should develop an integrated workforce strategy for improving home energy efficiency** covering all areas of domestic retrofit – from scheme design, product manufacturing, installation, assessment, to maintenance and enforcement.
5. **It is important that government is clear and consistent in its messaging on the preferred pathway for home heating**, especially with regard to the limited role that hydrogen will play in domestic heating. This will accelerate the transition, especially if combined with reforms to energy pricing.

#### Q1. What policy changes are needed to deliver energy efficient homes across the UK?

##### Funding

There are currently [3.8 million homes](#) across the North that fail to achieve EPC Band C. Government must provide long-term funding certainty to housing providers, local authorities, and the supply chain – expanding the size of funds and reforming how funding is delivered. Retrofit funding to date has been characterised by a proliferation of short-term, ‘boom and bust’ funding initiatives which have often fizzled out without making

significant progress. This has significantly damaged supplier and consumer confidence. To address this, the sector requires ambitious long-term commitments to fund locally-led delivery.

£6 billion per annum, across all housing tenures, is needed to make substantial progress on improving energy efficiency. This will provide certainty for housing providers to plan their property investment programmes with confidence and enable underdeveloped supply chains to scale up due to a long-term pipeline.

Problems with current government grant-funding:

1. **Competitive bidding processes:** providers spend significant resources in completing applications to access small pots of funding relative to the scale of funds required to decarbonise homes. The Local Government Association [estimate](#) that when considering all kinds of competitive grants available to local authorities, the cost of applying for them can be up to £30,000 for each grant. These resources could be put to more productive use elsewhere, including upgrading homes.
2. **Existing funds come with strict deadlines and little flexibility:** Where component prices are volatile, and schemes have faced delays due to weather, access issues and other problems, some schemes have struggled to deliver as first planned. Extra flexibility allows providers to decide how best to address these issues while still meeting outcomes, rather than meeting arbitrary deadlines or requirements that may no longer be the best use of funds. We have heard from multiple providers who have considered handing back funds to government or not participating in future funding rounds because of onerous restrictions and inflexibility.

We believe government should provide long-term funding certainty and trust local areas to deliver retrofit solutions tailored to their areas. This is not new and is a proven approach, with Local Authority Delivery 2 (LAD2) retrofit funding having been successfully delivered through BEIS local energy hubs. Expanding on this success, government should look to fund retrofit through long-term funding allocations, based on need, to either local authorities or Mayoral Combined Authorities. Allocations could be based on fuel poverty levels or % of homes failing to reach EPC Band C and distributed to local housing providers, landlords and owner occupiers using greater local knowledge than central government can realistically have.

## Regulation

The establishment and enforcement of effective Minimum Energy Efficiency Standards (MEES) is needed to drive up energy efficiency standards across all housing tenures, ensuring homes help reduce energy demand and are ready for low-carbon heating systems.

For private and social rental sectors, well-enforced minimum standards are critical for ensuring energy efficiency progress. The existing Minimum Energy Efficiency Standard (MEES) for private rentals is EPC Band E. A proportion of EPC Band E homes, and [“the vast majority of homes”](#) within Bands F and G – which account for 4.9%, 2.9% and 1.2% of the owner occupied, private and social rental sectors respectively – will have Category 1 excess cold hazards under the Housing Health and Safety Rating System (HHSRS). This

means that it is a serious enough concern for the local authority to take formal action due to the impact on the occupier's health. The existing standard and its enforcement are insufficient and must be strengthened. An expectation of EPC Band C by 2030 should form an integral part of a strengthened Decent Homes Standard applied across both the private and social rental sectors.

Sixty-five per cent of current housing stock consists of owner-occupiers which are not subject to any minimum energy efficiency standard. As a result, owner-occupied homes are now the least energy efficient tenure in the North, with 66.5% failing to reach EPC Band C (compared to 61.7% and 45.3% for the private and social rented sector respectively). Support for owner occupiers to retrofit their homes is also weak. Our recommendation for £6 billion per annum would provide funding support for this tenure, but to accelerate action further, government will need to consider setting minimum energy efficiency standards for owner occupied homes.

## Hydrogen

Academic evidence is clear that hydrogen is unsuitable for anything beyond a minimal role in domestic heating. Jan Rosenow's [meta-analysis of 32 different studies](#) of hydrogen use concluded that "existing independent research so far, suggests that, compared to other alternatives such as heat pumps, solar thermal and district heating, hydrogen use for domestic heating is less economic, less efficient, more resource intensive, and associated with larger environmental impacts."

It is almost certain, therefore, that most homes will be heated by a heat pump once gas boilers are phased out, with heat networks and other alternatives used in smaller quantities. Unfortunately, government's indecision on the future role of hydrogen in domestic heating risks delaying investment in low-carbon heating systems. Government currently plans to decide on the role for hydrogen by 2026, but as has been shown, the feasibility of it playing anything beyond a peripheral role in domestic heating is [minimal](#). This is unlikely to change between now and 2026 and, rather than waiting, government should provide additional certainty to the market by publishing a clear position statement on the extremely limited role that hydrogen will play in heating homes.

## Workforce

There are significant issues around existing skills provision and the supply of skilled labour across retrofit (see our response to Q5).

### **Q2. What are the key factors contributing to the under-delivery of the UK's government-backed retrofit schemes?**

The primary reason for under-delivery is that existing funding is comprised of inconsistent small pots, meaning that supply chains cannot and housing providers cannot plan long-term investment in confidence that there will be consistent support from government.

Shortages of skilled labour, including PAS2035 accredited assessors, and material price inflation – which in some instances has doubled component costs – have led to delays in completing works and increases in costs.

### **Q3. Which standards and assessment frameworks are needed to deliver a reliable, skilled workforce capable of transitioning UK homes to modern heating solutions?**

While providers of social housing are upskilling their workforces, more needs to be done in partnership with colleges, universities, institutes of technology, energy hubs, local authorities and Mayoral Combined Authorities.

Engagement with our members has identified numerous issues with skills provision:

- Insufficient skills in current workforce
- Lack of training infrastructure
- Poor communication of career opportunities
- Poor standards and existing skills provision providing limited practical experience and applicability to real world retrofit work

Decarbonising our homes will require significant investment in skills provision, but there are large potential benefits. Our research in partnership with [IPPR North](#), demonstrates there is potential for 77,000 direct jobs across the North in retrofit, heat pump installation and maintenance, and heat networks, generating a combined benefit of £3.85 billion by GVA by 2035.

The North East LEP's 'Domestic Retrofit Skills Assessment' concludes that if we are to reach Net Zero by 2050, there will be demand for 67,000 full time equivalent employees in retrofit across the North East and Yorkshire alone (or 80,000 for Net Zero by 2030).

These roles include:

- Retrofit coordinators
- Product manufacturers
- Public procurement officers and support roles
- Assessors
- Designers
- Installers
- Evaluators
- Advisors
- Service operators

To address this growing demand for skills, government should develop an **integrated workforce strategy** for increasing home energy efficiency. This should incorporate all elements of the retrofit supply chain, scheme design, installation, assessment, maintenance, and enforcement with specific focus on the job roles set to see the largest increase in demand (retrofit installers, designers, coordinators and assessors).

We hear from members that in some cases due to an insignificant supply of PAS2035 accredited assessors, assessment costs can rise to over £1,000. It is right that retrofit works are completed to a high standard, and it is understandable that government has committed to government-funded retrofit schemes being signed off by a PAS2035

accredited assessor, but the shortage of skilled individuals is currently adding significant costs and delays to schemes and should be addressed as a priority.

#### **Q4. How might the Government support innovation in delivering local solutions?**

Progress on energy efficiency has been quickest in the social rental sector with 54.7% of social homes reaching EPC Band C or above, compared to 38.2% in the private rental sector and 33.5% for owner occupied homes. The most recent SHDF completions data also shows that of the 10,490 measures installed using the fund, 60% have been in the North of England. Given this greater experience in retrofit and the fact that social landlords can deliver at scale, funding to this sector could be used as an opportunity to trial innovative solutions and the sector should be used to lead the way in adopting new energy efficiency and low carbon measures, building supply chains which can then be utilised in other sectors.

Government can support this by further devolving funds and decision making to Mayoral Combined Authorities, or to Energy Hubs where MCAs do not yet exist. This will allow regional authorities to collaborate with their local stakeholders, including housing providers, universities, colleges, businesses, charities, Catapult centres and others to innovate and identify new solutions that suit their areas and housing stocks.

#### **Q5. What role should customer choice play in the future planning of energy networks for home heating?**

Good communication with residents, from both landlords and government, is important in supporting people to adopt energy efficiency measures and low-carbon heating.

Our [Social Housing Tenants' Climate Jury](#) convened 30 social housing tenants from across the North to discuss: "how can tenants, social housing providers, and others work together to tackle climate change in our homes and neighbourhoods?". People told us that they want to see more evidence about the benefits of energy efficiency and low-carbon heating. Gas heating is also perceived to be reliable and easy to use compared to electric heating.

An important concern of our Tenant Jurors, as well as social landlords, is moving to low-carbon heating systems may result in increased energy bills. This could have a significant impact on the rollout of heat pumps (the UK is currently bottom of 21 peer nations ranked by the [Climate Change Committee](#) for per capita installations). The way to make the switch a choice that people want to make, and accelerate the transition, is to reduce the cost of running a low-carbon heating system. This will primarily be done through accelerating the expansion of renewable energy supply.

Beyond this, government should shift 'green levies' related to schemes such as the Renewables Obligation, Energy Company Obligation (ECO) and Warm Homes Discount that are charged on electricity bills onto gas bills. These levies currently comprise between 9-12% of household electricity bills and act as a direct disincentive to transitioning to low-carbon heating systems by artificially driving up their running cost and should be reformed.

**Q6. Does the current state of consumer protections for low-carbon home technologies represent a barrier to uptake of these products?**

The main barriers to the wider take-up of these products are a lack of funding support, immature supply chains, the familiarity of gas boilers, and the assumption that low carbon heating systems cost more to run. None of these relate to consumer protections.

[Citizens Advice](#) has highlighted that low-carbon technologies do have minimal consumer protections, but it is not in our view a main driver of underperformance.

**Q7. How will the public be able to afford the switch to decarbonised heating?**

High upfront costs for items such as heat pumps and solar panels will be challenging for social and private landlords as well as homeowners. Subsidies should play a role in increasing affordability.

Our Climate Jury identified concerns about costs to tenants (increasing energy bills, potential rent increases, property damage and emotional upheaval). Social landlords will need to effectively communicate why energy efficiency upgrades are required, their benefits, how they are funded, any service charge implications and assure tenants this will not result in increased rent, as this is determined through regulated rent settlements.

Increasing energy bills is a significant barrier to the take up of low carbon heating systems. Driving down the wholesale price of electricity and reforming energy bills to incentivise the adoption of low-carbon heating should therefore be a government priority.

When retrofit is done comprehensively, including solar panels and battery storage to power a heat pump, energy bills are lower than for gas-heated homes. This will present significant savings for tenants and pay back part of the initial investment for landlords and homeowners over time.

For a heat pump system to work efficiently and provide the greatest benefit for households, it needs to be switched on permanently. There is little evidence as to how heat pumps will be used in the 4 million households with prepayment meters. This will need to be considered as when prepayment meters reach a certain balance the home's energy supply is disconnected, meaning that a system may run more intermittently and therefore less efficiently.

Some people on extremely low incomes, who are often on prepayment meters, may not be comfortable with keeping a heat pump running permanently even if this is the most efficient way to run the system.

While we hope to reach a situation where every home is fit for a heat pump, it may be the case that a heat pump is not right for every household. In such a scenario, our net zero calculations must consider a low but non-negligible proportion of homes that do not have low-carbon heating systems for their own wellbeing. This could be a future avenue of inquiry for the Committee, who may wish to work with social landlords as prepayment meters are [more common in social homes](#) than the private rental sector (43% vs 23%).

### **Q8. How will decarbonization plans be drawn up in each area?**

Local areas across the North are already committed to this agenda. Of all unitary, metropolitan and district authorities in the North, 90% have declared a climate emergency and 71% have declared a more ambitious Net Zero target than 2050. Local government wants to deliver on this priority, but currently lacks the means and authority to do so effectively.

Plans for 'piloting the devolution of net zero funding through allocation rather than competition' mentioned in the [Greater Manchester Trailblazer Devolution Agreement](#) are exactly what we want to see rolled out across the North wherever possible. Regional authorities can utilise their knowledge of areas to allocate funds more efficiently, while the end to competitive funding processes allows providers to plan for a long term retrofit programme effectively. Housing providers, local authorities and Mayoral Combined Authorities have demonstrated effective collaboration in this area, notably through the delivery of Social Housing Decarbonisation Fund projects, but more could be done with additional resources and more local control.

The Housing Partnerships established in both Greater Manchester and West Yorkshire Mayoral Combined Authorities provide an effective forum for housing providers to engage with policymakers, which can be used to coordinate and draw up region-wide plans. This model should be allowed to grow and be followed elsewhere. Government must ensure all areas of England are covered by a Mayoral Combined Authority as soon as practicable. Where this is not already the case, an alternative approach is needed e.g., Energy Hubs or a bespoke partnership of local authorities.

### **Q9. Do the current EPC frameworks help consumers to make informed decisions on transition?**

EPCs are widely known and provide an understandable model of energy performance for housing providers, their employees and the wider public. We are aware of the issues with the current EPC system and the ongoing review should therefore continue to completion. To abandon the EPC system, however, would be a significant disruption for housing providers, who together are planning hundreds of millions of pounds of investment using existing EPCs as a guide. The argument to move away from EPCs, therefore, would need to be overwhelming to justify this.

Within the existing EPC framework, efforts should prioritise improvements based on the Energy Efficiency Rating, rather than the Environmental Impact Rating. This is because focusing on the latter could incentivise making changes to a property that would have negative impacts for residents such as making it prohibitively expensive to heat the home. This would run counter to our ambitions for a just transition to more energy efficient homes that work for all residents, including those on low incomes.

### **Q10. Do standards need to differ on different types of housing?**

We do not believe separate standards for different types of housing are required. We support the government's ambitions to apply an updated Decent Homes Standard to both

the private and social rental sectors. We believe that on energy efficiency, 'EPC C by 2030' could be applied uniformly across both rental sectors as a realistic and stretching target, but local authorities will need to have the resources to effectively enforce any standard.

Homes in the social rented sector out-perform other tenures on energy efficiency progress, with [54.7% of social homes in the North achieving EPC Band C](#), compared to 38.2% and 33.5% for privately rented and owner-occupied homes respectively. The main challenge for social landlords is obtaining the funding required to support their ambition to deliver higher standards.

A significant challenge is how to achieve a minimum EPC C target for homes which are owner-occupied. These homes, on average, have the poorest energy efficiency performance and owner-occupiers are expected to pay for retrofit. Additional funding is needed to increase performance, and minimum energy efficiency standards may be needed for owner-occupied homes to accelerate action.

While we would like to see consistent standards across different types of housing, there are many different routes to achieve more energy efficient housing. The most obvious example is the move to low-carbon heating and transition away from gas boilers as the primary mode of heating our homes.

It is almost certain that the main source of low-carbon heating for most homes will be heat pumps. The [International Energy Agency](#) (IEA) shows that 60% of buildings in Norway are now fitted with a heat pump, and around 40% in Finland and Sweden. This demonstrates the wide applicability of heat pumps and rebuts the idea, sometimes made, that heat pumps cannot provide sufficient heat in cold climates. While heat pumps will be the right option for most, we do not support an approach which ignores alternatives when they are demonstrably the best option. Government policy also needs to support the establishment of heat networks where these can be evidenced to be the most effective way of heating – primarily in densely populated areas, and where there are a mix of sources of demand for heat (e.g. commercial, leisure, residential). By devolving funding and decision-making to Mayoral Combined Authorities, decisions can be taken in partnership with people who know their areas, housing stock and potential heating options best, to put funds to their optimal use to meet pre-determined standards set by central government.

There may be a case for some 'hard to decarbonise' homes being exempted from standards because the cost of retrofit is unrealistically high relative to property value. Analysis by [Parity Projects](#) concluded that around 5% of social homes would require investment in excess of £20,000 to meet the 90kwh/m<sup>2</sup> space heating demand target established for the Social Housing Decarbonisation Fund. This would suggest that approximately 64,000 social homes in the North require more than £20,000 to retrofit. Due to the increasing cost of retrofit components since this research was undertaken, this figure has likely increased.

This is especially relevant in some parts of the North associated with low property values. In some of these areas, the cost to fully decarbonise homes will be a significant portion of the total property value and will increase the proportion of properties with negative or marginal Net Present Values (NPVs) – a key measure used to assess whether a property is financially viable. One of our members recently told us that when assessing the required investment to fully decarbonise their stock, the proportion of their properties that would have negative or marginal NPVs increased from 17% to over 50%, with the number of



homes with negative NPV quadrupling. In the most severe of these cases, funds would be better used to replace these properties with more modern, energy efficient homes. Where this is not possible, an exemption from energy efficiency standards could be granted, applied equally across all tenures.

If the government is to apply exemptions to decarbonisation to some properties, as has been suggested, we cannot allow those that are deemed too expensive to decarbonise to be neglected, and for a subsequent residual class of properties to form. There must be a plan to address these properties in the long term, either through government providing funding above a pre-determined cost cap to effectively remediate the property, or by providing regeneration funding to provide a new, more energy efficient home. This approach will need to be applied consistently across all housing tenures.

### **Q11. What is the role of different levels of government in developing, funding and implementing schemes?**

Central government's primary role should include setting the long-term goals and strategy for delivering widescale retrofit, providing long-term retrofit funding settlements to Mayoral Combined Authorities or local authorities, developing an integrated workforce strategy for improving home energy efficiency and setting minimum energy efficiency standards. Central government should aim to devolve funds and decision-making related to individual schemes to Mayoral Combined Authorities or local authorities wherever possible.

Mayoral Combined Authorities or local authorities should be granted decision-making authority over whether to fund specific projects, in alignment with pre-determined outcomes from Whitehall. Mayoral Combined Authorities can bring together housing providers from across their geography to draw up regional plans, discuss progress, support collaboration and share best practice.

Stock holding local authorities will have a role in directly delivering retrofit schemes on their own homes. They will also be the immediate point of contact for private landlords and owner occupiers to access any funds made available for these tenures and dissemination of these individual funds should be the sole authority of local authorities.

Local government will also have an important role in the enforcement of both the Decent Homes Standard and related energy efficiency standards, especially once the Decent Homes Standard is applied to the private rental sector. For this to happen effectively, local authorities will need to be resourced sufficiently. Local authority housing capacity in the North was reduced by 53% over the last decade. This should form part of an integrated workforce strategy for increasing home energy efficiency, which includes related resourcing requirements within local government.

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