



## Energy Efficient Scotland

### UK Finance response to the Scottish Government consultation

July 2018

#### Introduction

UK Finance is a trade association formed in July 2017 to represent the finance and banking industry operating in the UK. It represents around 250 firms in the UK providing credit, banking, markets and payment-related services. The new organisation brings together most of the activities previously carried out by the Asset Based Finance Association, the British Bankers' Association, the Council of Mortgage Lenders, Financial Fraud Action UK, Payments UK and the UK Cards Association.

In addition to representing residential mortgage lenders, UK Finance members also lend to support the social housing/ RSL sectors across the UK nations. We welcome the opportunity to provide this response to the government's [consultation on Energy Efficient Scotland](#). This response should be read in conjunction with our response to the related [consultation on a second phase of the Energy Efficiency Standard for Social Housing](#), EESSH.

#### General comments

UK Finance and mortgage lenders recognise and support initiatives that could reduce the energy running costs for households in all tenures, including the private rented sector; the owner-occupied sector as well as the Registered Social Landlord (RSL) sector. We recognise also the priority for government to reduce carbon emissions from housing to meet climate change targets.

UK Finance is already engaged with work underway on many of these issues and challenges in Europe and Westminster.

Through our work on a UK national and EU basis, we are keen to see consistency of approaches which should help to minimise the potential for disruption to the operation of the housing and mortgage markets and provide a largely friction free environment for the adoption and implementation of new measures and approaches.

#### Specific comments

We have responded to those of the consultation questions and proposals that most directly impact our members, and the wider housing and mortgage market.

#### Improving homes

**Q1** *What are your views on our proposal for owner occupied and private rented properties to achieve the Long-Term Domestic Standard EPC Energy Efficiency Rating Band C by 2040 at the latest?*

We do not support an approach that involves mandatory standards, action and enforcement against owner-occupied households.

We suggest that, beyond the issue of energy efficiency and decarbonisation of homes, government should have a wider public discussion about the extent of state intervention and control in housing of all tenures, including owner-occupier household choices.

We suggest that such a discussion needs to take place sooner rather than later, so that home owners can fully understand how much the state controls or wants to control their choices. In this way, households can be fully informed and make informed representations about what they might be prepared to accept.

We are concerned that the current approach of changes to standards in different areas (smoke alarms; energy performance; possible changes in tenement maintenance requirements) could mean that home owners and those involved in funding home ownership could find themselves in a future where the state has whittled away their rights, powers, and choices.

**Q2** *Do you think we should allow for situations where a lower standard is acceptable?*

Yes, lower standards than EPC C should be acceptable to allow for older/ harder to treat properties, and to ensure affordability for the household concerned.

**Q3** *Do you think we should allow for situations where a longer period for improvement is allowed?*

Yes, this could allow for resolution of more complex cases where there could be issues such as permissions, including in tenement or block properties, or for other reasons such as inheritance or estate settlement or long-term empty properties to be tackled. A longer timeframe could also allow technologies in heating, cooling and use of renewables to become more advanced and mainstreamed to support better consumer understanding and uptake.

**Q4** *We are proposing that the definition of a cost-effective measure is that it should pay back over its lifetime. What are your views on this definition?*

This seems sensible, but we would also suggest consideration of a Golden Rule approach (such as in the Green Deal) which should ensure that the cost of any measures or improvements is not greater than the savings they generate.

**Q5** *What are your views on the issue of air quality in relation to the Long-Term Domestic Standard?*

Although this is tangential to our interests, we recognise that domestic air quality is increasingly an issue where, as a result of climate change, some homes could be as hard to keep cool and appropriately ventilated as they might be to keep warm. This is likely to be a longer-term issue given Scotland's climate, but it is right that the Government should be looking at it now.

**Q6** *The EPC Rating of a property can be affected by changes to the underlying methodology and to fuel price data. How do you suggest that the Programme takes account of this in setting the Long-term Domestic Standard?*

Again, this is tangential for us, but we would suggest that any long term standard should be capable of flexing and adapting to cope with changes in the underlying methodologies provided this does not result in fundamental changes to the standard itself or its impact on households, such that there is a "moving-of-the-goalposts" effect.

**Q7** *What are your views on the proposal that all PRS properties meet EPC C by 2030?*

We have previously responded to the government's proposals for minimum energy efficiency standards in the PRS. Within the detail of those proposals, a standard of EPC C by 2030 does not, in itself, seem unreasonable provided an appropriate exceptions process is in place and that there are appropriate funding mechanisms available for landlords to be able to pay for required improvements in a financially sustainable way.

### **Owner-occupiers: encouraging action**

**Q8** *What are your views on our proposal for an initial period of encouraging action?*

We agree with an approach that encourages and incentivises households to take action. In our view, this approach, backed with sufficient and appropriate support, information/ data and funding where required could be capable of delivering the required changes and improvements without recourse to mandatory action.

**Q9** *What information would be useful for householders to be able to access on how to achieve EPC Energy Efficiency Rating Band C before 2030?*

Information about measures and improvements that could be undertaken individually and in combination, together with their costs, typical energy savings, associated and likely EPC rating improvement. Clear information should be provided on how improvements could be funded. Information should also be provided on the most appropriate and suitable improvements for the particular home, taking account of building/ construction type/ location (such as a conservation area or heritage site). It would also be useful to provide householders with information about behavioural changes they could make to maximise the benefit of improvements – i.e. how use of an improved home

could affect actual energy and environmental performance (for example not running heating with windows open; or having to open windows because a highly insulated home becomes too hot).

### **Owner-occupiers: mandatory action**

**Q10** *What are your views on our proposal to follow this initial period with mandating action?*

As stated above, we do not agree with or support an approach that mandates or requires action. We believe such an approach could have perverse and unintended consequences for the operation of the housing and mortgage market particularly where:

- Households are less able or unable to afford the required action/ improvement measures (for example an older household that might be asset rich but cash poor)
- Requiring the installation of potentially costly measures/ improvements might undermine a customer's ability to afford their mortgage
- Any financial penalties or fines might further limit or prevent a household from affording improvement measures/ actions
- Requiring the installation of measures or improvements might have a material detrimental impact on the marketability or valuation of a property (for example requiring the installation of solid wall insulation that is unsympathetic to the visual character of a property)
- Requiring improvements to achieve minimum standards could place obligations and costs on a lender in possession.
- Requiring improvements upon a change of ownership could cause property price distortions and uncertainty in price negotiations as seller and buyer work out who must pay for what and by when. An impact might be that properties which have not been improved become "sticky" in the market. In conjunction with other impacts, such as LBTT rates at the higher end of the market, there could be other unintended consequences that mean some properties become slower to transact. This could have knock-on impacts elsewhere in the market.
- Mandatory standards and the possibility of enforcement action could limit the ability of properties to freely transact in the market. This could have significant impacts for the wider economy.

**Q11** *What are your views on our proposal that 2030 is the right point to start mandating action to achieve EPC Energy Efficiency Rating Band C?*

As stated above, we do not agree that action should be mandated. Instead, the approach should be based on encouragement, support and voluntary action.

**Q12** *What are your views on our proposal for owner occupied properties to be subject to penalties for non-compliance?*

We do not feel that it would be right to impose penalties for non-compliance.

**Q13** *What are your views on requiring all types of accommodation to meet the Long-Term Domestic Standard over time? Please explain your answer, giving examples of accommodation you think should/should not be required to meet the Long-Term Domestic Standard if relevant.*

While we recognise the consistency this could provide, we do not agree that there should be a blanket requirement for all properties to meet a standard in this way.

As stated above, we feel government should initiate a wider public conversation about the extent of state intervention and control in housing of all tenure, so that there is clarity upfront about what households are prepared to accept. Government could then frame its policy proposals across a number of areas so that they are within publicly accepted boundaries.

We suggest a more proportionate approach could be to frame standards against an expectation that all properties should be improved to their highest attainable standard taking account of constraints such as building type/ location as well as finance and cost-effectiveness for the householder and the public purse.

### **Higher targets for fuel poor homes**

**Q14** *Please provide your views on our proposal that all homes with fuel poor households are to reach EPC Energy Efficiency Rating Band C by 2030, where technically feasible and cost effective?*

This seems sensible, subject to the caveats around technical feasibility and cost-effectiveness.

**Q15** *Please provide your views on our proposals that all homes with fuel poor households are to reach EPC B by 2040, where technically feasible, cost-effective and possible within limits affordable to the public purse?*

EPC B is a particularly high standard and, given that fuel poor households could be in any tenure, including owner occupied, we would caution against such a high standard without upfront clarity about the full implications of this, especially in relation to cost-effectiveness and impact on the public purse.

## The role of assessment to support the Domestic Energy Efficiency Standards

**Q16** *In addition to what we have set out in paras 46-50, what should the Energy Efficient Scotland Assessment Short Life Working Group also consider? Please explain your answer.*

There would be merit in the working group considering the issue of how best to develop consistent and credible evidence on energy cost savings that can be achieved by installation of energy efficiency measures and improvements.

## Compliance and enforcement of the Long-Term Domestic Standard

**Q17** *What are your views on whether the Long-Term Domestic Standard should be enforced at a local or national level? Please explain your answer.*

Any enforcement should be at a national level to ensure consistency in enforcement standards, and that there are sufficient resources for effective and proportionate implementation.

[We have not responded to Questions 18 to 24]

## The Programme and use of EPC data (domestic and non-domestic)

**Q25** *What additional data would help building owners in the delivery of the Energy Efficient Scotland Programme? How would this be used?*

Clear and consistent data about energy cost savings that could be delivered by measures/ actions individually or in combination, and associated likely changes in energy performance rating.

[We have not responded to Question 26]

**Q27** *We will investigate the benefit in providing new online resources or tools to support building owners to access and use data to help them improve their properties. What particular types of resources or tools would you find useful and why?*

There might be merit in considering the development of consumer-use applications for self-assessment of energy performance and how this might be improved by deploying measures/ improvements. Households could benefit from a single resource or hub for information on potential measures/ costs/ savings and where to go for accredited suppliers and consumer redress, if things go wrong.

**Q28** *In addition to the above, we welcome any specific comments or observations you may have on the future use of the data that is gathered from energy assessments.*

Future use of data will need to be within GDPR requirements, particularly where third party access might be possible, including for marketing of products or services.

## Contact

To discuss this submission further, please contact [John.Marr@ukfinance.org.uk](mailto:John.Marr@ukfinance.org.uk)