

Decarbonising Home Heating

Public Accounts Committee Inquiry – National Housing Federation submission

April 2024

Summary

- Housing associations are well placed to be at the heart of the country's decarbonisation agenda, making England's old and leaky homes more energy efficient, and lifting social housing residents out of fuel poverty by ensuring they live in decent, warm homes that are affordable to heat. The number and variety of homes they own and manage means the sector is able to drive this work efficiently and on a large scale.
- Housing associations are leading the way on energy efficiency, with their homes the most energy efficient of any tenure type. Our members are working in line with the government's Clean Growth Strategy and are dedicated to ensuring their social homes are certified EPC C by 2030.
- Funding is crucial to this work. Savills research, carried out prior to the high rates of inflation in recent years, suggests decarbonisation of housing association homes will cost an additional £36bn on top of the £70bn already committed by housing associations.
- The Social Housing Decarbonisation Fund (SHDF) is the key funding vehicle through which our members are delivering retrofit works. The allocation of £1.25bn in Wave 3 of the SHDF is welcome, however, longer-term certainty is needed.
- A long-term funding commitment beyond 2030 would provide housing associations with the long-term confidence and certainty to plan for, and deliver, the large scale home decarbonisation projects required to meet the country's target of net zero by 2050.
- Any funding must be delivered through partnerships between housing associations, local authorities and the government, and incorporate the lessons learned so far from existing decarbonisation schemes, such as the SHDF.

Introduction

The National Housing Federation (NHF) is the voice of housing associations in England. Housing associations are not-for-profit organisations providing 2.8 million homes for six million people in every council area of England.

Housing associations are committed to the net zero target and to decarbonising their homes by 2050. In the interim, they are working to a target of reaching EPC C in their social stock by 2030, as set out by the Clean Growth Strategy. Housing association homes are already more efficient than homes of other tenure types: 68.7% are certified EPC C or above, compared with 44.5% of privately rented homes and 42.9% of owner-occupied homes.

Our response to this inquiry focuses on the current funding environment around decarbonising social homes, particularly in relation to retrofit and the installation of clean heat technologies in social homes. It is informed by discussions with our housing association members, as well as industry experts.

If you have any questions about this submission, please contact Ewan Fulford, Policy Assistant at the National Housing Federation (ewan.fulford@housing.org.uk).

Ensuring decarbonisation is affordable to the public

Improving the energy efficiency of and switching social homes to decarbonised heating systems is crucial to ensure social housing residents live in warm, affordable homes. Our research has shown that [social housing residents are disproportionately affected by rising energy bills](#) in relation to their income, but for those in inefficient national homes the impact is two-fold. These residents spend on average 5.7% of their income on heating bills, compared to an average of 3.4%. Those in the least efficient homes (EPC G) spend as much as 15.5% of their income on heating bills. This equates to two months' income each year, nearly five times the national average. Decarbonising home heating will play a crucial role in bringing down energy bills for residents, making heating their homes more affordable and reducing fuel poverty.

Decarbonised heating systems, such as heat pumps, use electricity which is currently more expensive than gas. To ensure the public can afford the switch to decarbonised heating, it is critical that the government brings forward plans to rebalance gas and electricity costs in household bills with the aim of making electricity bills cheaper. While the government committed to introducing a Fairness and Affordability consultation to explore options to rebalance electricity and gas pricing as part of the Heat and Building Strategy, this is yet to be published. This will

ensure those who do make the switch to decarbonised heating do not end up paying higher energy bills as a result.

Heat networks are also expected to play a key role in the switch to decarbonised heating and are estimated to meet around a fifth of the country's heat demand by 2050. Currently, heat network customers are not protected by a price cap and in some instances can face high prices and a low quality of service. To ensure energy costs are affordable for heat network customers, we would like to work with the government as plans to regulate heat networks progress. The Heat Network Efficiency Scheme could also be expanded to ensure it reaches more of the most inefficient heat networks, which in turn would bring energy costs down for residents.

Barriers to decarbonising social homes

Long-term funding certainty

Arguably, the lack of long-term certainty is the single biggest barrier to the delivery of energy efficient homes across the UK. The stop-start nature of government-backed schemes and lack of clarity around future funding creates an environment of uncertainty for housing associations and supply chains. This leads to increased costs in the sector, prevents supply chains from being scaled up and can lead to project delays, as well as the scaling back of planned projects. A long-term funding commitment to programmes like the Social Housing Decarbonisation Fund (SHDF) would signal the government's long-term commitment to delivering energy efficient homes, helping to create certainty in the sector. The allocation of £1.25bn in Wave 3 of the SHDF up until 2028 is welcome, but longer-term certainty beyond 2030 is needed to instill confidence in supply chains to invest further, enabling social housing providers to deliver decarbonisation at a greater scale and a faster pace.

In 2021, Savills and the NHF published research exploring the [cost of decarbonising housing association homes](#). To bring the remainder of them up to EPC C and install heat pump technology in these homes, the cost would be an additional £36bn on top of the £70bn our members already plan on investing. Given these figures predate the significant price shocks and inflationary period of recent years, it is likely this figure is now much higher.

Given the inflationary environment, members have reported they have had to scale back certain elements of SHDF projects, particularly the installation of heat pumps. As our [Hard to Decarbonise Homes Report](#) shows, when a £5,000 grant for heat pumps is introduced, the proportion of housing association homes that are difficult to decarbonise and cost over £20,000 to upgrade decreases from 5.3% to 1.1%. Through extending the Boiler Upgrade Scheme to the social rented sector, the

viability of installing electrified heating would increase dramatically, helping to build supply chains, reduce barriers to decarbonisation and grow awareness of emerging technologies.

Design and delivery of retrofit schemes

Programmes like the SHDF have been welcomed by the housing association sector as they provide organisations with the funds to deliver large scale, ambitious retrofit programmes. However, the current design of these programmes can hinder the delivery of energy efficient homes. In addition to the lack of long-term certainty around SHDF funding, those bidding into the programme also face tight timescales, both in terms of the time allocated to prepare and submit their bid, and the time allowed to complete the project delivery.

Accessing funding and delivering projects through the SHDF can present a particular challenge for smaller housing associations, who often have limited capacity to gather the data necessary to submit a bid in the timescales allocated. Changing the way the SHDF and similar programmes are delivered would ensure they are accessible to organisations that want to bid into them, and would enable larger, longer-term projects. Any changes to the SHDF that would reduce the administrative burden at the time of submitting an application, provide a greater degree of flexibility in how the funding is spent, and provide longer time scales for delivery of projects would positively impact the delivery of low-carbon heating and energy efficient homes across the UK.

Housing associations have welcomed the opportunities to feed into the design of programmes like the SHDF to ensure they work for all social housing providers. Changes to the design of Waves 2.1, and 2.2 of the SHDF, including longer application and delivery windows and the ability of social landlords to bid in directly, improved the accessibility of the scheme and were welcomed by the sector. It is important that these lessons learned continue to be captured in future waves of the SHDF and any future decarbonisation funding programmes.

Regulatory environment

The government has committed to integrating Minimum Energy Efficiency Standards (MEES) into the Decent Homes Standard review. At present, our members are working to the assumption that they will need to bring their social stock up to EPC C by 2030, as set out in the Clean Growth Strategy.

It is likely that the MEES consultation will provide clarity over hard to decarbonise homes, particularly those which will be prohibitively expensive or difficult to retrofit. Our members are ready to reach EPC C, however, a firm commitment from the

government over this deadline would help provide additional certainty to the sector and guidance over homes which may be more difficult to decarbonise.

A reformed EPC metric would help ensure the right retrofit measures are incentivised, facilitating a 'no regrets' approach to this work and aligning MEES with the approach followed by government funding programmes such as the SHDF, as well as the government's 2050 net zero target. It would also help to inform residents of the social and financial benefits that decarbonising their homes will have for them and prepare them for the changes that will be needed on the journey to net zero.

Proposals for EPC reform should be carefully considered and set out alongside the MEES consultation. This will ensure social landlords are clear about the standards they are working to and help to prevent goalposts being moved multiple times, potentially changing the target landlords need to work towards to reach EPC C across their homes, which would come at a significant cost to the sector and could delay energy efficiency targets.

Resident engagement and public understanding

Vitality, a just transition to net zero must be customer-focused. Retrofit measures and the work required to install low-carbon heating can be intrusive, both in the material work such as installation of new radiators, as well as the visits associated with PAS2035 compliance. Explaining how retrofit work will have a positive impact on heating and bills, and retaining customer engagement throughout the process, can take time and effort. Our members do a great deal of work engaging tenants to allay concerns, including hiring specialised Customer Liaison Officers, offering drop-in sessions, and surveying residents after the work has been carried out.

For many residents the technology related to electrified heating, particularly heat pumps, is very new. This can lead to instances where the technology is not used as effectively as possible. We are therefore pleased to see the recent work by the Department for Energy and Net Zero to [promote heat pumps and reassuring potential consumers](#).

A national campaign targeted towards residents would help allay misconceptions and concerns, as well as act as an education piece so that this technology can be used efficiently. Crucially, this must be part of a wider vision of net zero communicated to the public, to encourage buy-in and participation in reaching our 2050 target.

Role of the government in developing and implementing decarbonisation schemes

We would like to see central government working closely with stakeholders, including local authorities, housing associations and the supply chain, to develop, fund and implement schemes. By engaging with stakeholders, central government can ensure that these schemes are designed and delivered to meet the existing funding gaps and to enable retrofit works to be scaled up significantly.

Housing associations and local authorities should play a significant role in the local delivery of retrofit schemes. Social housing providers will have good knowledge of their homes and residents and therefore are well placed to plan and deliver retrofit projects. They also have the scale, purchasing power and long-term stake in homes and communities necessary to spearhead the decarbonisation of the UK's homes and the wider installation of low-carbon heating technologies.

In the right regulatory and financial space, our members have the purchasing power and expertise to help develop robust supply chains, skills and delivery models to help deliver retrofit at a large scale. Housing associations would welcome a greater degree of flexibility within schemes like the SHDF to enable them to deliver place-based solutions that meet local needs.

Recommendations

- Provide housing associations, supply chains and lenders with the long-term certainty needed to bring the sector's stock up to EPC C by 2030 through:
 - Committing the remaining SHDF funds up to 2030.
 - Consulting on Minimum Energy Efficiency Standards alongside EPC reform to ensure we are working to consistent, legally binding commitments.
 - Increasing public awareness of clean heat technologies through a national campaign.
- Provide additional funding to support housing associations roll out clean heat sources. This may be delivered through the extension of the Boiler Upgrade Scheme to the social sector.
- Review and benchmark government progress against the Heat and Building Strategy to ensure all our work is underpinned by a national retrofit strategy.