

Decarbonisation of housing: decarbonising the private housing sector

Restricted
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Response

Introduction

The Building Societies Association (BSA) is the voice for all 43 UK building societies, as well as seven credit unions. Three of these societies are headquartered in Wales (Principality, Monmouthshire and the Swansea), with others providing branches in Wales. Together these organisations serve almost 26 million customers up and down the length of the UK.

Most building societies lend on properties in Wales. They have a strong interest in good quality housing, which includes ensuring these properties are energy efficient, with a fabric-first approach.

A number of building societies already offer green mortgages and green further advances. The latter will be most pertinent to the retrofitting of properties already owned, providing affordability assessed finance to fund up-front retrofit costs.

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

There are a number of steps that should be taken to help create a stable environment for a retrofit programme.

Short Term

Firstly, a long term (multi-year) plan is needed, which is joined up across government departments and local authorities. This must be clearly communicated to consumers, so that those who are able to pay are clear about any available support and everyone is clear about what needs to happen by when. Any support should focus on a 'fabric-first' approach to ensure that homes do not leak energy. This is generally more affordable for consumers than investing in new technologies, such as heat pumps, and can have a bigger immediate impact on energy bills. The plan should also take into account those homes which are off-grid and tend to be in more rural areas.

The Welsh Government is already trialling a number of projects. The BSA is partnering with the Green Finance Institute. They recently announced a partnership with the Greater Manchester Combined Authority to deliver place-based approaches to retrofit. This could be a model for the Welsh Government to consider.

Medium Term

In the medium term, there should be a focus on quality and standards in the supply chain. We are aware that the Welsh Government supports TrustMark and retrofit providers should be encouraged to register for TrustMark accreditation in order to access Government funding. However, lessons should be learned from the rollout of the Green Homes Grant, which created a barrier to customers finding suitable tradespeople given the time it takes to achieve Trustmark accreditation.

With all of these steps, there is a balance to be achieved between the speed of decarbonisation and the cost of decarbonising homes. Plans should recognise that owner-occupiers are individuals and will make their own decisions for single properties. With the current cost of living crisis, the up-front cost has assumed far greater significance, in balance with rising energy costs.

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;

Consumer understanding

Consumers are often unsure of what steps to take to decarbonise their home specifically and who to trust to carry out the work. The Green Finance Institute (GFI) has produced a handbook for lenders to explain the different technologies currently available. We are now working with the GFI, UK Finance, the Association of Mortgage Intermediaries and others to produce a broker handbook for mortgage intermediaries on the same topic. This is important, as around 80% of mortgages are distributed via intermediaries. Ultimately a variant for consumers will also be produced.

Consumer financing

In terms of funding, there are an increasing number of green mortgages and further advances available, to either fund decarbonisation works or which reward a better Energy Performance Certificate (EPC) rating. But many consumers are still unaware of these products and this is a new product area for many lenders.

The BSA carries out a quarterly Property Tracker survey tracking consumer sentiment. In September 2021, we asked questions around energy efficiency and have results using data from Welsh respondents. The majority had not considered making any energy efficiency improvements to their home (63%). The biggest barrier to making homes more energy efficient was meeting the initial upfront costs (60%), followed by it taking too long to recover the initial costs (52%) and uncertainty about the savings that can be made (46%).

Energy Performance Certificates

The UK Government sees the mortgage process as a potential vehicle for creating 'nudge' incentives for consumers to buy already energy efficient homes.

We have contributed to a number of relevant trials in this area. We, along with some of our members, including Principality, contributed to the LENDERS project seeking to better reflect household energy costs in mortgage applications.¹ Monmouthshire Building Society is participating in the VALUER project with Sero Homes, RICS and RightMove which is exploring the links between energy efficient homes and property values². The Monmouthshire Building Society is also part of the Optimised Retrofit consortium, along with the Hinckley and Rugby Building Society and Sero Homes.

We have a number of concerns: In particular, incorporating the EPC into the mortgage process in the way LENDERS suggested would not provide the behavioural nudge the Government is looking to achieve, as most borrowers do not take the maximum loan amount available to them.

Mandating a minimum EPC standard for homes carries risks with it. These include the risk of stranded assets being created as, if work to reach a certain EPC level is unaffordable, people may be trapped in a home and may be at risk of negative equity or becoming mortgage prisoners. It is essential that lenders are able to support those with energy-leaky properties to retrofit them and are not penalised for holding mortgage books that include a range of EPC ratings. Achieving a fair transition to net-zero is essential for society.

There are also concerns around the accuracy of EPCs and the gap between predicted energy use and actual performance. The energy efficiency rating in the EPC can penalise some green forms of energy, such as heat pumps and bio-fuels for those off-grid due to the comparison of fuel bills. We are aware of off-grid consumers being advised to adopt higher carbon fuels like oil as these can perversely improve an EPC rating.

¹ https://www.ukgbc.org/wp-content/uploads/2017/09/Lenders_Core_Report_1.pdf

² <https://sero.life/press-room/consortium-wins-welsh-government-funding-to-retrofit-1300-homes/>

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The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £477 billion, and account for 23% of the UK mortgage market and 18% of the UK savings market.