

HOMES FOR SCOTLAND

WRITTEN SUBMISSION

Low Carbon Scotland: Meeting our Emissions Reduction Targets 2013 - 2027

1. Homes for Scotland is the representative body of the Scottish homebuilding industry, with over **190 homebuilder and associate members**. Its members **build around 95% of all new homes** for sale built each year, as well as a significant proportion of the affordable housing output annually. Homes for Scotland makes policy submissions on National and Local Government policy issues affecting the industry, and its views are endorsed by the relevant local committees and technical advisory groups consisting of key representatives drawn from within our members.
2. We welcome the opportunity to respond to this report and have already provided oral evidence at a session on 6th February 2013 to discuss the issues of energy efficiency in Housing. This submission is intended to supplement and support the oral evidence already provided.
3. This submission will focus particularly on Section 5 of RPP2 (Homes & Communities)
4. As an industry we fully recognise the need to address the dual challenges of Climate Change and Fuel Poverty and accept the role that we play. However before commenting on that role we feel it important to provide some statistics to set the context.

CONTEXT

5. Total Domestic Housing Stock in Scotland in 2011 is 2.495m¹ homes. New housing output is tiny in comparison and totalled only 15,112 units in 2011. Therefore **new housing output added only 0.6% to the total stock in 2011**. This new housing will also, by definition, be more energy efficient as it will have been built to rigorous latest Building Standards. Whilst new housing output will vary year by year, the average was still only 17,927 units per annum since 2008.

¹ Scottish Government website. Housing Statistics for Scotland

6. National Records of Scotland projections² show that we need 450,000 extra homes in Scotland to meet expected demand by 2030; this equates to an average of 25,000 new homes per year, every year. When compared with the figures above, this perfectly illustrates the challenge we face and the size of the housing crisis.
7. Around a fifth of Scotland's housing stock is now over 90 years old and a third more than 60 years old. More than four out of five homes in Scotland today are likely to still be in use in 2050 - within the scope of this RPP2.
8. Given the above facts it makes logical sense to **focus all efforts on reducing Carbon Emissions and tackling Fuel Poverty towards the older, less energy efficient housing stock**, and this has been acknowledged within Scottish Governments 'Sustainable Housing Strategy'.³
9. **Retrofitting and upgrading Scotland's existing Housing Stock is by far the biggest challenge and opportunity to make impact on carbon reduction.** However a report from WWF, Mind the Gap⁴ in 2012 concluded that there could be a major shortfall of available funding to deliver the targets as set out.
10. New build homes are already highly energy efficient and current standards mean that **new build homes have already reduced their carbon emissions by 70% since 1990 levels**³. According to our own calculations, new energy standard proposals recently published by the Scottish Government, will contribute only 0.07%⁵ to overall climate change targets.

NEW BUILD HOUSING – THE ECONOMICS OF DEVELOPMENT

11. The Sullivan Report⁶ published in 2007 set a roadmap to zero carbon homes by 2016 and

² National Records for Scotland Household Projections for Scotland 2008-based

³ Homes that don't cost the earth – a consultation on Scotland's Sustainable Housing Strategy:
<http://www.scotland.gov.uk/Publications/2012/06/8390/7>

⁴ Mind the Gap: WWF 2012

⁵ Extrapolated from the Scottish Government's "Low Carbon Scotland: Meeting the Emissions Reductions Targets 2010-2022" (June 2011)
<http://www.scotland.gov.uk/Resource/Doc/346760/0115345.pdf>

⁶ A Low Carbon Building Standards Strategy for Scotland. 2007

there have been changes to Building Regulations in 2010 to deliver upon this roadmap. Further proposed changes are currently under Consultation for intended implementation in late 2013/early 2014⁷.

12. The impact of these (and other) proposed changes to Building Regulations will however have a significant affect upon the cost of constructing a new home. Building Standards Division of Scottish Government commissioned BRE to undertake a study⁸ into the cost impact of these changes and they concluded that *“The life cycle costs of the dwellings with improved levels used net present value as an indicator of the returns expected. Returns over 30 years were found to be negative for all fuel price inflation measures used”* – suggesting that the life-cycle economics were negative. The study went on to advise that the Capital Costs for implementing the proposed changes ranged from between £1,314 - £11,284, with the average being typically c.£6,656.
13. It is this additional Capital cost which will potentially have a major effect on the housing industry as there is no way for the homebuilder to absorb this additional cost or see it reflected in the selling price of the home.
14. Any additional costs will have ultimately have to be borne within the complete supply chain and consequently converted into land values, which could take many years to work through the system. In the meantime, sites that have been purchased on an assumed costs analysis could become economically inefficient to develop and thus output could stall.
15. Larger, UK-wide developers will make land-buying and investment decisions based on where they can achieve the best shareholder returns. If construction costs are relatively higher in Scotland (and consequently returns lower), their investment will take place elsewhere. Smaller, local homebuilders will simply not be able to develop, as sites are not viable.
16. Reduction in housing output will have many knock-on effects. The existing housing need and shortfall has already been recognised (see item 6 above). Reduced housing output even further will negatively impact on jobs and economic activity in an industry that is already fragile.

⁷ Lower carbon buildings - a review of energy standards and guidance within Scottish building regulations <http://www.scotland.gov.uk/Publications/2013/01/4018>

⁸ BRE Report on assessment of the impact of potential improvements to energy standards for new domestic buildings within building regulations <http://www.scotland.gov.uk/Resource/0041/00412409.pdf>

MARKET TRANSFORMATION

17. At present, valuers and mortgage lenders do not recognise any value premium for energy efficient homes. For example, two similar sized houses adjacent to each other and comparable in all respects – one 90 years old and very energy inefficient would be valued at the same rate to a brand new home that is highly energy efficient.
18. Although recent fuel price rises have been significant, there is little evidence to suggest that the energy efficiency of a home plays an important or pivotal factor in the decision-making process when choosing a new home for most homebuyers, whether that is an older property or new-build.
19. Until we see Market Transformation, where the energy efficiency of a home is reflected in its value, then we will struggle to continue to add to the construction costs because land will become unviable to build, output will decline further and this will impact upon jobs, economic growth and add to the housing crisis.
20. Financial Market Transformation has been recognised by Scottish Government as a necessary requirement and is discussed in the Sustainable Housing Strategy document⁹. However there is no evidence of this change taking place to date.

INCENTIVISING DESIRABLE BEHAVIOUR

21. We believe that to achieve market transformation we need to see the energy efficiency of a home reflected in ways that incentivise. For example Stamp Duty Land Tax (LBTT) should be structured to offer lower rates for energy efficient homes. However, this transaction tax would only apply to home-movers and may not in itself be sufficient to drive change. To achieve greater impact consideration should be given to structuring Council Tax charges to reflect the energy efficiency of homes and encourage improvements.

ALLOWABLE SOLUTIONS

22. Given the challenges posed, we believe that new build homes and the industry can play an important part. We have proposed that instead of introducing new tougher Building Standards for new homes, which would only

⁹ Homes that don't cost the earth – a consultation on Scotland's Sustainable Housing Strategy:

<http://www.scotland.gov.uk/Publications/2012/06/8390/7>

deliver a negligible contribution to the Carbon Reduction target¹⁰, and at the expense of much needed housing output, instead Scottish Government introduces flexibility in its approach. The introduction of ‘Allowable Solutions’ whereby a homebuilder, rather than build to new Energy standards, could instead be given the option to contribute to a fund which would be used to retrofit and upgrade older properties, could achieve greater levels of Carbon reduction per £ spent and create a win-win situation.

23. Some opponents to this proposal have argued that ‘*if homes are not built to the highest possible standards now then they will have to be upgraded in the future*’ – we understand this point but would propose a ‘Fabric First’ approach, whereby the main structure of the house (walls, floor and roof etc) be optimised for maximum performance by using as much insulation as possible during the design and construction phases. As soon as this optimum point is reached, then the addition of micro-renewables can be included which are relatively easier to add at a later date, as evidenced by the growing number of older properties having solar panels fitted.

24. We believe that this ‘Allowable Solutions’ approach makes most pragmatic sense and allows the home building industry to continue to deliver the much-needed homes, contribute towards the Retrofit of older, energy inefficient properties and achieve a much greater impact on carbon reduction and fuel poverty.

SUMMARY & CONCLUSIONS

25. Achieving the ambitious and challenging Carbon reduction and Fuel Poverty targets set by Scottish Government will require major change and creative approaches.

26. However, actions to achieve these targets can not and should not be seen in isolation of the wider impact that they may have, or indeed the possible unintended consequences.

27. Scotland has a housing shortage and a need to deliver thousands of new homes. Steps that drive up the cost of building these new homes will result in the decline in output unless mitigating actions can be taken.

¹⁰ Extrapolated from the Scottish Government’s “Low Carbon Scotland: Meeting the Emissions Reductions Targets 2010-2022” (June 2011)
<http://www.scotland.gov.uk/Resource/Doc/346760/0115345.pdf>

28. The new home building industry calls upon the Scottish Government to take a holistic view to addressing these (possibly) competing aims and seek to create and innovative solutions that have the potential to deliver the optimum outcomes without solving one problem but inadvertently exacerbating another.

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