Just Transition Commission: Call for Evidence
Homes for Scotland Response
30 June 2020

Q: Full name or organisation's name.

Homes for Scotland (HFS)

Q: Does your response relate to a specific sector?

Homes for Scotland (HFS) is the representative body for the home building industry in Scotland. Together, our c200 members provide the majority of new homes, building across all market segments and tenures. We speak on their behalf with strength, credibility and expertise in support of our primary purpose of delivering more homes for Scotland. Providing much needed, warm, sustainable housing and improving health and education outcomes, home building in Scotland is also responsible for over 63,000 jobs and supports more than £3bn annually in Gross Value Added (GVA). No other industry impacts such a wide range of public policy areas.

HFS and our members fully recognise the challenges posed by the climate emergency and the subsequent need for the home building industry in Scotland to play its' part in mitigating any future damaging impacts. Nevertheless it is important to recognise how far the new build housing industry has come over the past decade. The sector already buildings highly energy efficient homes, and has played a significant role in reducing Scotland's carbon footprint, with new homes built to 2015 Building Standards, representing a 75% reduction in carbon emissions when compared to 1990 baseline levels.

As such our response will be answered primarily in the context of the new supply of housing Scotland so desperately needs, however we will also highlight the wider economic challenges connected to the entirety of Scotland's residential housing stock and associated national infrastructure which is vital to delivering new housing.

Q: What do you see as the main economic opportunities and challenges associated with meeting Scotland's climate change targets?

<u>Scotland's Existing Residential Housing Stock</u>

- The Infrastructure Commission for Scotland (ICS) reported that of the current 2.5 million homes in Scotland, 80% will still be in use in 2050.

- More, 75% of the current housing stock was built before 1982, with 20% being built before 1920, making a significant proportion of existing housing stock at least 100 years old. Thus whilst we fully accept the role that the home building industry can and should and play in terms of mitigating any future potential impacts, the proportionality of measure in terms of the balance with retrofitting existing stock should be fully considered.

<u>COVID-19 Economic Impact</u>

- Scotland's net zero ambitions already presented a significant challenge when the Scottish and UK economies were relatively stable. With the onset of a sustained global recession ahead, these challenges will now become amplified with the backdrop of severely constrained economic growth.

- The Organisation for Economic Co-operation and Development (OECD) is now forecasting the UK to experience the worst impacts of recession compared to other western developed countries, with an 11.5% to 14% projected decrease in GDP as a result of COVID-19.

- The Scottish home building industry offers a clear and reliable pathway to stimulating an economic recovery providing they are given a stable platform to begin to increase housing delivery once again, regaining the momentum that had been building prior to beginning of lockdown and target the delivery of

25,000 warm, sustainable, low carbon homes each year.

- It is therefore imperative, that the Scottish Government offers clear guidance, coupled with bold leadership to help deliver and implement the required structural changes to the Scottish economy and national infrastructure to facilitate a transition to a net zero Scotland. **With future economic forecasts looking fragile for a number of years, the home building industry and wider construction industry will require some government support to move forward on delivering cost effective solutions to achieving net zero carbon.**

Carbon Cost Tipping Point in the Built Environment

- As referenced earlier, the new build industry has made great strides in recent years in its implementation of carbon reduction throughout the embodied (construction) phases and operational (asset use) phases of the homes they construct.

- This has followed the general principle between carbon and cost, that when carbon is interpreted as a proxy for energy, natural resources and materials, that if carbon is reduced, cost will usually fall in tandem. This was highlighted in the UK Government's Infrastructure Carbon Review (2013) that promoted the message *"reduce carbon, reduce cost"*.

- Carbon Cost Intensity (CCI) is a measure of the carbon emitted for each unit of cost spent, e.g. kilograms of carbon dioxide equivalent per pound (kgCO2e/£). It can be used to prioritise carbon reduction measures within a fixed budget and identify the most cost-effective carbon reduction options. CCI can be applied at three general levels; granular, mid-range and project. It is particularly useful for prioritising project options in carbo cost terms, including alternative routes, materials or construction techniques.

- Whilst this principle holds true for larger infrastructure projects, carbon cost 'tipping points' exist across the built environment wherein the cost of reducing carbon increases exponentially in comparison to the relatively small decreases of carbon emissions achievable.

- Naturally however, as the market for low carbon materials and construction techniques and technologies evolve, the carbon cost tipping point will shift, with higher carbon solutions becoming more expensive. Until then, it is a financial barrier to net zero carbon.

- Given the existence of the 'carbon cost tipping point' described above, there will be a financial cost to achieving net zero carbon emissions. This additional net zero cost is currently not appearing to be matched by an increase in property values within the residential sector, the implications being if left to the market alone, net zero carbon homes are unlikely to become a reality. Therefore in the context of national net zero carbon targets, it has become clear that net zero will not be possible without significant investment.

Scottish National Investment Bank

- The Scottish National Investment Bank will have a clear role to play in leading strategic investment not just in housing, but the required associated infrastructure and green finance needed to assist the sector in meeting Scotland's ambitious zero carbon objectives. There are already a variety of funding packages available through the Scottish Government such as the Low Carbon Infrastructure Transition Programme which has been implemented to draw investment into the development of new innovative and low carbon solutions, however we note that these programmes are currently not eligible to the residential development sector.

- The Building Scotland Fund which has primarily been designed to unlock housing development and test the market and develop processes as a precursor to the SNIB has been hugely successful since its launch with £100m already agreed for a variety of projects. We note that one of the additional objectives of the Fund is to act as a catalyst for wider business practice change such as reducing carbon. As such this provides an already established pathway for funding to be evolved into providing financial mechanisms for the development of low carbon housing at a much larger scale.

Q: What do you think are the wider social (health, community etc.) opportunities and challenges associated with meeting Scotland's climate change targets?

Consumer Behaviour

- One must consider the impact the customer (end user) of a home has on its potential operational carbon emission. Whilst homebuilders can and do look to reduce the whole life carbon cost of the homes they deliver during the construction phase (embodied carbon) and for end design of a home (e.g low carbon technologies and smart home designs etc.), they cannot seek to mitigate and regulate the end user of that home. Herein lies a significant challenge; greater awareness and willingness from the general public to consider changes to their lifestyles will have a greater bearing on whether a home can truly be net zero.

- This principle applies across the entirety of the residential property sector, both new and existing housing stock. A specific, and significant challenges lies in existing residential stock, with on average far higher operational carbon output compared to that of new build. Without significant intervention, the vast majority of existing residential Scottish housing stock will contribute heavily to Scotland's carbon emissions.

Q: What would a successful transition to net-zero emissions look like for your sector?

Simply that decisions to go down the route of net-zero should be cost-neutral (for the sector) compared to that of existing delivery methods and that national and local government requirements help (not hinder) the delivery of circa 25,000 homes per annum.

Q: What actions do you think the Scottish Government should take to manage the opportunities and challenges referenced above?

Infrastructure Investment

- There is a need to establish investment funds for the reinforcement of our national energy infrastructure at a strategic level, taking away this requirement from housing delivery and enabling the sector to lead from the front in terms of zero carbon heating and electric vehicle charging.

Financial Incentives and Taxation Reform

- Financial incentives to reward behaviour that supports the transition to low carbon will be essential in changing the behaviour of individuals. For example some banks are introducing 'Green Mortgage' products a discounted mortgage rate for properties with high energy efficiency ratings. This lower mortgage rate, combined with reduced running costs could begin to encourage individuals to choose new, low carbon homes. The Scottish Government should actively encourage lenders and valuation surveyors to take a positive view of energy efficiency and operational costs when making lending decisions.

- The Scottish Government should consider a form of LBTT relief on properties that provide higher energy efficiency ratings if it wishes to influence consumer behaviour towards a low carbon Scotland, whilst acknowledging the important contribution the new build sector provides in reducing carbon emission in Scottish residential sector. Additionally local authorities should give similar consideration to the role of council tax in encouraging investment in low carbon homes.

- Consideration should be given to reduce Section 75 requirements to allow the additional cost to be absorbed into the land value.

- Reshaping the consents systems (planning and building standards) to provide incentives for developers who bring forward zero carbon developments (reduced fees, accelerated timescales, default planning approval on land already allocated)

A consistent and co-ordinated approach to carbon reduction

- We are seeing different approached being taken across each of the 32 planning authorities in terms of the how they wish to enact their responsibilities under Section 72 of the Climate Change (Scotland) Act. The policies employed often seek to further reduce emission through the application of Sustainability Standards (Section 7 of the Building Standards Technical Handbook) or specifying greater use of low carbon energy technologies, significantly affecting the design and construction aspects of new homes as well as going over and above national baseline building standards. This results in an inconsistent regulatory environment and makes it harder for home builders to invest in the housing required at local levels.

- As such we are seeing wide divergences across the development industry in what low carbon solutions are being invested in, ranging from district heating to ground source heat pumps, PV panels and hydrogen. While each offers their own advantages, there still remain untested scenario testing as to divergence in energy uses between urban and rural areas, and how Scotland's network capacity and ability to generate, store and deliver more electric focused energy sources will perform.

- Clear guidance and incentives are needed from the Scottish Government to allow private businesses and individual households make long term investment decision in what is still relatively new and unfamiliar technology.

- Existing legislation should be refocused to a singular point of oversight for carbon reduction of new homes e.g. removal of Section 72 to enable developer focus on requirements through Building Standards.

- Scrapping Section 7 Sustainability of the Building Standards to simply set out the next forthcoming change to building standards e.g. providing certainty and lead-in times for the industry and its supply chain to develop cost-effective solutions for the next change.

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