

## BEIS Call for Evidence: Review of UK Net Zero Strategy October 2022

### 1. How does net zero enable us to meet our economic growth target of 2.5% a year?

In the built environment, decarbonisation measures can contribute to economic growth in two ways:

- By lowering energy demand for heating and cooling through energy efficiency measures. This reduces business expenses on energy bills.
- By stimulating the economic activity of companies implementing low carbon products and services. Research commissioned by RICS and the Federation of Master Builders in early 2021, showed that a cut to VAT for repair, maintenance and improvement (RMI) works to homes, over a five-year period would create an economic stimulus worth £51 billion and support the creation of 340,000 jobs<sup>1</sup>. We appreciate a cut to VAT for certain retrofit measures has since been introduced following this research, but not to the full extent to RMI.

### 2. What challenges and obstacles have you identified to decarbonisation?

In the built environment, there are four great challenges to decarbonisation:

- The high, predominantly upfront capital cost of retrofitting of poor performing buildings. The lack of funding opportunities for comprehensive retrofits (i.e. not just covering single measures) means that large shares of the building stock cannot be improved. Considering only the residential stock, the Climate Change Committee<sup>2</sup> estimates that 500,000 homes must be retrofitted per year by 2025, and one million per year by 2030.
- The need to expand and upskill the workforce in order to deliver retrofit measures at large scale. The limited availability of workers and professionals constrains the volume of works that can be carried out, while the lack of skills often leads to poor results which do not meet the expected performance levels.
- The lack of regulatory pressure to decarbonise construction and building operations. Embodied carbon represents an increasingly significant share of emissions from the built environment, but is entirely absent from regulations. Operational carbon should be addressed both at design stage (via Building Regulations) and at the use stage. Without incentives to businesses to operate their buildings efficiently, the efforts made at design stage risk to be cancelled out.
- At present there is also a lack of regulation and governance on retrofit advice, which is leading to incorrect or poor-performing 'green' measures being installed. For example, there is no current standardised approach towards retrofit assessments and remediation advice in housing, and importantly, no minimum level of competency to undertake such works. RICS is working on the 'British Standard 40104 Assessment of dwellings for retrofit' to develop a industry-recognised consistent approach towards retrofitting – which will help ensure a holistic approach is undertaken to each survey, the level of competency expected from the surveyor and can help training and education bodies shape future courses, as they are currently doing for PAS 2035.

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<sup>1</sup> <https://www.rics.org/uk/news-insight/latest-news/news-opinion/cut-vat-to-stimulate-economic-growth-and-create-greener-homes/>

<sup>2</sup> <https://www.theccc.org.uk/wp-content/uploads/2022/06/Progress-in-reducing-emissions-2022-Report-to-Parliament.pdf>

### **3. What opportunities are there for new/amended measures to stimulate or facilitate the transition to net zero in a way that is pro-growth and/or pro-business?**

The main opportunity in the built environment lies in retrofitting existing buildings at large scale. Beside reducing carbon emissions, these measures:

- Provide work to local businesses and generate employment,
- Improve the quality and value of properties,
- Lower the energy bills of households and businesses, and in turn, could see savings then spent elsewhere within the economy,
- Lower energy demand at national level and greater energy security,
- Improve the indoor conditions of buildings, with long term health and social benefits.

To enable retrofits to be delivered at large scale to all sections of the building stock, Government should financially support these measures through a national programme of retrofit and work with the lending community to expand take up of existing green financing.

### **4. What more could government do to support businesses, consumers and other actors to decarbonise?**

- Government should provide clear long-term policy objectives and instruments to decarbonise the built environment. The lack of stability in what is expected and what support is available does not give confidence to households and businesses to invest in decarbonisation measures. Most building regulations and targets set only go so far in the net zero journey – for example, there are no legislated targets currently in place for private home ownership to reach net-zero within a certain date outside of 'net zero by 2050'.
- Government should introduce a new section to the Building Regulations to cover embodied carbon, as in the Part Z proposal.<sup>3</sup>
- Government should mandate reporting of operational energy and carbon in non-domestic buildings and gradually introduce incentives to improve performance on an annual basis.
- Government should improve the EPC scheme by following the recommendations of the Etude report<sup>4</sup> and further developing EPCs as a fully-digital instrument that is fit for the different purposes it serves.

### **5. Where and in what areas of policy focus could net zero be achieved in a more economically efficient manner?**

There are several examples of where this can be achieved in the built environment, especially through future proofing assets:

- Building regulations mean c85% of new build homes meet EPC A or B but most still lack renewable technologies such as solar PV, despite physical and geographical conditions allowing so. To support net zero, many of these homes will need solar PV installed in due course. Building regulations could change to require solar PV by default on new dwellings unless conditions don't allow for it, similar to what the EU is requiring on all new builds. This will save long-term costs and disruption by integrating it with the build stage.
- Many developers are currently remediating cladding on high-rise properties. In a few limited cases, some developers are using this as an opportunity for energy-efficiency upgrades such as greater insulation or vertical solar PV. This is a costly exercise, but if done holistically, can save long-term

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<sup>3</sup> <https://part-z.uk/proposal>

<sup>4</sup> <https://www.levittbernstein.co.uk/research-writing/making-sap-and-rdsap-11-fit-for-net-zero/>

expenses to developers and disruption. Government should investigate how best to encourage developers and building managers to think holistically, such as through the use of Building Passports.

- There are major economic opportunities to manufacture low-carbon technologies in the UK. 70% of heat pumps are currently imported from abroad. For manufacturers to switch to producing such devices and installers to upskill, this will be a costly exercise and they need assurance that there will be a long-term pipeline of work. Supply of such technologies was highlighted as one of the major challenges with the Green Homes Grant Voucher Scheme. Government should look at what fiscal incentives are available to support the upfront costs of modernising the supply chain, and how best it can guarantee a minimum level of work after.

## **6. How should we balance our priorities to maintaining energy security with our commitments to delivering net zero by 2050?**

Measures to address either one of these priorities should not be taken if they negatively affect the other. Decarbonisation efforts contribute to energy security in two ways:

- By reducing energy demand. In the built environment, the main reductions will come from retrofitting existing domestic buildings at large scale, since they are responsible for the largest share of energy demand from the building stock.
- By diversifying and localising energy supply via the exploitation of renewable energy sources. The greater the use of renewable energy sources, the less reliant we will become on fossil fuels from abroad, and any international events that might disrupt supply and cost.

## **7. What export opportunities does the transition to net zero present for the UK economy or UK businesses?**

The main opportunities lie in the development of technologies, products and services that support decarbonisation efforts. Innovation in this field is crucial, and the UK companies and universities have been at the forefront for years. In the built environment, this applies to low-carbon construction products as well as digital products such as building assessment software or proptech solutions for managing building operations.

## **Questions for local government, communities and other organisations delivering net zero locally**

### **24. What are the biggest barriers you face in decarbonising / enabling your communities and areas to decarbonise?**

One of the biggest barriers for our profession will be consumer demand for services such as retrofit assessments and then the skills and supply chain to deliver on those results.

At present there is insufficient government legislation, regulation and funding to drive forward large-scale consumer interest, action and behavioural change with regards to retrofitting to achieve net zero. This is especially the case in the private housing market and to a lesser extent the commercial property. At present, only a few thousand homes a year undertake significant retrofitting, with 500,000 homes required to go through the process in just over two years.

UK Government consulted in 2021 on the requirement for mortgage lenders to achieve a portfolio average of EPC C by 2030, an initiative that if introduced would have a seismic change on the market and will create demand for our services and the wider supply chain.

### **25. What has worked well? Please share examples of any successful place-based net zero projects.**

The net zero ambition creates opportunities for our members and member firms to diversify their services and skillsets, helping to create an additional level of futureproofing against difficult economic times.

For example, we know of RICS firms whose standard business model was heavily reliant on undertaking RICS Home Surveys - a very common part of a house purchase process. A number of these firms have invested in

upskilling in retrofitting, energy efficiency advice services and PAS 2035, having identified a growing demand, and must-have in the future. This also allows them to provide additional services in the event of a slowdown in the housing market.

## **26. How does the planning system affect your efforts to decarbonise?**

The planning system has an indirect impact on our members and wider supply chain through its ability to create demand for retrofitting. Reform to the planning system, to create 'street ready' approvals for certain measures such as external wall insulation, has been cited by other professional bodies as an example of expediting the planning approval process and speeding up retrofitting and energy efficiency.

## **27. How can the design of net zero policies, programmes, and funding schemes be improved to make it easier to deliver in your area?**

There is an urgent need to create a 'carrot and stick' approach towards net zero policies in the UK. In the case of the housing market, various grants, subsidies and green lending exist to support decarbonisation, but this is countered by a relatively weak regulation framework to encourage take up.

Social housing and the private rented sector are currently the most regulated, but virtually no regulations exist in the owner-occupier sector. This means a lot of the advice we can offer homeowners has little influence in terms of 'risk' of inaction – other than those related to higher-energy bills and the *future* need to decarbonise.

RICS was recently a partner in the BEIS-funded VALUER Project, as part of the Green Homes Finance Initiative. This set out to explore how sustainability and net zero influence property values and how green financing can enable change. One of the biggest findings was that without regulation in the owner-occupier sector to meet a minimum level of energy performance within a certain period it was significantly more difficult to communicate the need to decarbonise.

If regulation came into effect, this would significantly increase the important role our members offer, would see a rise in the number of green loans or investment undertaken to decarbonise and would also give additional confidence to supply chains that there was an increase in workload to justify upskills and new products.

## **28. Are there any other implications of net zero or specific decarbonisation projects for your area that the Review should consider?**

The review might be interested in reflecting on research RICS undertook during the summer of 2022 into consumer sentiment towards energy efficiency and decarbonisation. Sample size 2776 households, June 2022.

- When asked why homeowners have not made major environmental upgrades, 51% cited cost as too high, and 41% said they needed to prioritise spending on major expenses e.g. cost of living.
- 49% of homeowners would expect investment in green measures to see an increase in property value. 55% would invest in work if it made their property more attractive to prospective buyers.
- 77% of prospective buyers said it will be helpful if surveyors also reported on ways to make a property more environmentally friendly and energy efficient.

These findings also build on our recent research into the influence sustainability has over property values and ultimately GDP. RICS partnered with Rightmove to evaluate 200,000 property sales to explore the correlation between average market value and EPC rating of a home. Moving from EPC E to C, typically saw an 8% above market value for comparable sales, and 4% for moving from EPC D to C.

Similarly, in the commercial property sector there is a clear rise in occupier and investor demand for energy-efficient buildings. The 2022 RICS Sustainability Report highlighted that around 60% of respondents in Europe

reported brown discounts play a role for energy-insufficient buildings.<sup>5</sup> Again, this will have implications over investment, values and property taxation.

RICS would also like to highlight role carbon pricing can have in net zero and economic implication. Carbon pricing will play a key role in decarbonising the construction sector, including carbon taxes, trading systems, credits, and internal project pricing mechanisms. Building on its leading work in the measurement and reporting of carbon in the built environment, RICS is looking at the feasibility of standardised carbon pricing at a project level. This industry-led development would provide a fair mechanism to accurately account for the true economic cost of embodied carbon, while maintaining the competitiveness of individual projects. At a national level, RICS also believes that further fiscal intervention in the form of more stringent carbon taxes may be necessary.

However, the largest emitters must also invest proactively in decarbonisation in order to reduce emissions and drive innovative solutions that can be replicated across the sector.

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<sup>5</sup> [https://www.rics.org/contentassets/fabee7a1008a4222ba688c8ba45af6c2/2022-rics-sustainability-report\\_final.pdf](https://www.rics.org/contentassets/fabee7a1008a4222ba688c8ba45af6c2/2022-rics-sustainability-report_final.pdf)

