

TOP LINES

New Build Heat Standard

13 June: Several media articles reporting that from April 2024, new homes built in Scotland will not be allowed to have gas boilers. Industry body Homes for Scotland warned plans could increase cost of buying a home and reduce delivery. **Quotes from Building profession in Annex – p.9**

General Heat in Buildings

14 June: Warmworks announced as winner of bid to deliver next phase of Warmer Homes Scotland, the SG's flagship scheme to improve energy efficiency of homes for those living in or at risk of fuel poverty.

13 June 2023 (Reuters): Germany's coalition agrees changes to green heating law after dispute where German coalition sought compromise on proposals (which mirror SG proposals) to ban installation of more oil and gas heating from 2024. The requirement will now only apply if there is a municipal plan for the heating supply in the area. Key criticisms: cost, the inclusion of hydrogen-ready boilers, supply chain and skills shortages, impact on grid infrastructure and lack of industry consultation.

3 June: [Herald] SG facing accusations of "hypocrisy" after 11 (out of 17) core buildings will fail to meet EPC C or above.

20 May: UKG launched a review of heat pumps over fears they might be too noisy.

12 May: [P&J] Warmer Homes Scotland scheme paused to new applications until October 2023.

Background: Heating is 20% of Scottish emissions. Net zero by 2045 requires change in over 2 million homes and 100,000 non-domestic buildings (at total estimated capital cost of c. £22bn). Heat in Buildings Strategy confirms SG intention to regulate building owners to change heating systems and improve energy efficiency (alongside increased SG funding, actions on supply chains and calls on UKG to improve market conditions). The New Build Heat Standard is part of wider context with a focus on new build domestic and non-domestic buildings.

NEW BUILD HEAT STANDARD

The New Build Heat Standard is an important step towards decarbonising our buildings and reaching the 2030 target and net zero.

- Heating Scotland's homes and buildings is one of the biggest contributors to our carbon emissions and we know we have to take decisive action to meet the legal climate targets which all parties in parliament voted for.
- The New Build Heat Standard, laid in Parliament on 8 June, will mean that no new buildings constructed under a building warrant applied for from 1 April 2024 will be built with direct emissions heating systems, like gas and oil boilers. New domestic and non-domestic buildings will be built with zero direct emission, climate-friendly, alternatives, like heat pumps and heat networks.
- In practice, as warrants typically last 3 years, this means that we expect some new developments to be able to install direct emissions heating systems, like gas boilers, until April 2027 – this supports the transition for the housing sector, including for those buying new homes.
- The New Build Heat Standard presents an opportunity for developers to deliver future-proofed buildings that would otherwise require costly and disruptive retrofit works. Some developers are already doing that ahead of changes to regulations,

HEAT IN BUILDINGS, INCL HOME ENERGY EFFICIENCY

and social housing providers are working to the new standards from this December.

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HOUSE PRICES / MARKET

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- In Q4 2022, the average new build house price in England was £412,000, as compared to £290,000 in Scotland, which is over 40% higher.
- In 2023 – 2024, the Scotland the average Band D council tax is £1,417, £648 less than in England
- The cumulative 4.4 percentage point increase in the Bank of England rate between November 2021 and May 2023 is estimated to have increased the monthly payment on an existing tracker mortgage rate in Scotland by around £250 on average.

People buying a home are increasingly aware of the value of a home that meets high energy standards and are willing to pay more for it.

- A report from Santander in October 2022 shows that homebuyers are putting a 9.4 per cent premium on homes that have been retrofitted [the list of measures includes heat pumps].
- This equates to an average premium of £26,600.

HOUSEBUILDING TARGET

We have a target to build 110,000 affordable homes by 2032. Through our Affordable Housing Supply Programme, additional support is available for affordable housing providers who wish to install zero direct emissions heating systems in homes delivered through the programme.

- We know that many partners in the AHSP are already installing these systems in new homes, and that some have been doing so for some time. This has helped the construction sector to develop expertise in advance of 2024.
- To avoid the cost and disruption of future retrofit of affordable homes, we will be accelerating the introduction of zero direct emissions heating systems in all new homes delivered by councils and Registered Social Landlords through the AHSP over the coming months.
- Applications for grant funding under the AHSP from 1 December should contain homes that have zero direct emissions heating systems – unless there are compelling reasons why the grant applicant considers that this would not be appropriate, or where a valid building warrant is already in place prior to that date.

From April 2007 to end December 2022, we have delivered 118,124 affordable homes, over 83,000 of which were for social rent, including 21,313 council homes.

- All-sector housebuilding completions are at their highest annual rate since 2008, up 10% on last year.
- Since 2007, Scotland has seen 43% more affordable homes delivered per head of population than in England, and 73% more than in Wales.
- We are making £3.5bn available in this Parliamentary term, towards the delivery of more affordable and social homes.
- We have delivered over three times as many social rented homes per head of population than England over this period.

COST OF HOMES

The sale price of a new building is determined by individual developers and takes into account a range of factors related to building construction costs and local housing markets.

- The additional cost to developers to install a zero direct emissions heat system, such as a heat pump, is in the region of £8,400 or 3% of the total average purchase price of a new build residential property
- Heat pumps are currently more expensive to install than gas boilers, however the Standard is technology neutral and the costs of different zero direct emissions heating systems vary dependent on a number of factors
- It may be expected that both innovation and economies of scale will reduce the price of ZDEH systems as Scotland and many other countries increase their deployment.

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RUNNING COSTS

Running costs are difficult to quantify as these vary across properties. However, energy efficiency is significantly higher in new buildings compared to existing ones which reduces heating requirements, and this is associated with a reduction in fuel poverty.

- We will follow the principles set out in our Heat in Buildings Strategy to ensure people are not pushed into fuel poverty in the process of decarbonising homes and over the course of this Parliament we are allocating at least £1.8 billion towards heat and energy efficiency measures and to support those least able to pay.
- Energy prices impact running costs. Energy policy (including energy price setting) is mostly reserved, but we will continue to engage with Ofgem, the UK Government, and energy suppliers to ensure the needs of Scottish energy consumers - especially those in or at risk of fuel poverty - are represented in any decision making.
- We continue to press the UK Government, using its reserved powers, to follow through on its commitment to publish proposals to rebalance energy bill costs, so that the running costs of zero emissions systems are comparable to fossil fuel incumbents.

SG ACTION COMPARED TO UK GOVERNMENT

We are introducing the New Build Heat Standard one year earlier than the UK Government plans to introduce similar proposals because we are facing a global climate emergency, and we cannot delay taking action to reduce the emissions associated with heating our homes and businesses.

- It is clear the pace of decarbonising Scotland's building stock must increase significantly, and new buildings applying for a building warrant from 2024 will lead the way forward in achieving this.
- The Committee on Climate Change have already urged the UK Government to bring forward their Future Homes Standard proposals a year early, to align with the Scottish Government.
- On 18 February 2020, Lord Deben, Chairman of the Committee on Climate Change, and Baroness Brown, Chair of the CCC's Adaptation Committee, wrote to the Minister of Housing, Communities and Local Government to urge the UKG to [QUOTE]: "*consider bringing forward the 2025 introduction date – we note that Scotland are due to introduce equivalent standards a year earlier*".

ENGAGEMENT

We first announced our intention to regulate in September 2019, almost 5 years in advance of regulations coming into force. This has given the sector significant time to plan for the new regulations.

- We have consistently engaged with the sector – through two formal consultations, our independently chaired working group, and individual meetings for the Scottish Firms Impact Test, as well as ad hoc meetings. We will continue to work constructively with industry to overcome remaining barriers to delivery between now and 1 April 2024.
- We continue to work constructively with stakeholders to ensure any remaining barriers to delivery are addressed.

HEAT IN BUILDINGS, INCL HOME ENERGY EFFICIENCY

ELECTRICITY GRID CAPACITY

We will continue to engage to ensure the electricity grid has sufficient capacity to enable delivery of the New Build Heat standard.

- The regulation of electricity networks is reserved to the UK Government.
- We are aware that in some cases the cost to developers of connecting to the electricity network will be higher for new developments, however we are also clear that good design can minimise those costs and there are savings to be made from not needing to connect to the gas network.
- Ofgem has recently (1 Apr) introduced changes to networks charging and access arrangements which will socialise some of these costs, therefore reducing the upfront capital costs for new demand connections.
- It is important that the ways in which our electricity networks develop should continue to reflect devolved, regional and local policies and ambitions.
- The Scottish Government, Ofgem and industry have developed and agreed a number of principles which set out the need to account for devolved policy and targets in regulatory decision making.
- We are continuing to engage closely with Ofgem and DNOs to ensure the next set of price controls (RIIO ED2) unlocks required investment in network infrastructure to support the connection of zero carbon heating solutions onto the electricity network.
- Scotland's Distribution Network Owners (DNOs) have published ambitious RIIO ED2 business plans which, now approved, will unlock investment in local electricity networks over the period 2023 - 2028.

GENERAL HEAT IN BUILDINGS

Heating our homes and workplaces causes 20% of our emissions – we cannot achieve Parliament's net zero target without ending our use of gas boilers.

- Meeting our 2030 interim climate change target will need more than one million Scottish homes to change to a zero-carbon heating system.
- We will consult during 2023 on a Heat in Buildings Bill to phase out fossil fuel boilers in Scotland's homes and buildings and move to clean heating systems.
- We are allocating at least £1.8bn over the course of this Parliament towards heat and energy efficiency measures and to support those least able to pay.
- Over 150,000 households in Scotland already live in homes which are warmer and cheaper to heat, thanks to investment by the Scottish government.
- Moving to cleaner heating systems and improving energy efficiency can end our reliance on fossil fuels and deliver enduring savings for homes and businesses.

The UK Government has soft-pedalled on support for energy efficiency and is only now catching up with the approach we have here in Scotland.

- Scotland has clear ambitions to decarbonise buildings faster than the UK as a whole (recognised by the CCC in its December 2022 Scottish progress report).
- Our Home Energy Scotland service and dedicated fuel poverty schemes already offer significantly more support to households than is available in England.
- In The Warren Report, (Jul/Aug 2022) Andrew Warren, chairman of the British Energy Efficiency Federation said **[QUOTE]:** *“My advice to Whitehall is simple. Whether you take the high road or you take the low road, you had best be copying Scotland's initiatives.”*

HEAT IN BUILDINGS, INCL HOME ENERGY EFFICIENCY

Our commitment to allocate at least £1.8bn over this parliament will help kick-start growth in the market and support those least able to pay. This includes:

- At least £465m to support those least able to pay, delivered through our Warmer Homes Scotland and Area Based schemes.
- £300m Scotland's Heat Network Fund to support the construction of new heat networks and the expansion and decarbonisation of existing heat networks.
- £200m Social Housing Net Zero Heat Fund, investing in a sector already leading the way in the heat transition.
- £200m Scottish Green Public Sector Estate Scheme, supporting leadership for energy efficiency and heat decarbonisation right across the public sector.

SCOTTISH GOVERNMENT ESTATE

Carbon emissions across the Scottish Government estate have reduced by 45% over the last 10 years.

- Domestic and non-domestic EPC ratings cannot be compared (they use fundamentally different methodologies and rating scales), and we have not made any proposals to require non-domestic properties to achieve EPC C by 2025.
- Our proposals for domestic energy efficiency are to meet EPC C by 2033 (not by 2025). Our proposals for public buildings are to be net zero by 2038 (ahead of the target for all buildings of 2045).
- I recognise the importance of the public sector playing its part and the Bute House Agreement commits us to develop and agree a series of phased targets for all publicly-owned buildings to meet zero emission heating requirements by 2038.
- We are the only Government in the UK to hold the carbon trust triple standard, and we will do all that we can to reduce our direct and indirect emissions to as close to zero as possible.

WARMER HOMES SCOTLAND PAUSE

Warmer Homes Scotland (WHS) will relaunch from October with more help for households to receive a climate-friendly heating system.

- Improvements will continue to be installed up until the end of the current contract and all new applications will be assessed under the criteria for the successor scheme, for delivery when the new contract goes live on 2 October.
- We have now signed the contract with the successful bidder to manage the scheme, Warmworks, who will begin mobilisation over the next 4 months ahead of the 'go live' date.
- The WHS successor scheme has a significantly increased maximum contract value of more than £700m over up to 7 years, so it can provide even more support for fuel poor households over its lifetime.
- We delivered measures in 5,478 households during 2022/23, a record number of installs through WHS.
- We have widened the eligibility criteria to the Warmer Homes Scotland scheme, allowing a further 100,000 households to become eligible.
- Households who receive improvements through Warmer Homes Scotland are expected to save an average of £152 per year on their energy bills.

We have boosted the capacity available through Home Energy Scotland and Business Energy Scotland.

- Through Home Energy Scotland, households can now claim grant funding of up to £18,000 (in rural homes) or £15,000 (in non-rural areas) to install zero emissions heating and improve the energy efficiency of their homes.
- SMEs can receive up to £130,000 to install energy efficiency, renewable heating and other renewable technologies via the SME Loan and Cashback Scheme, and we are investing an additional £300,000 in Business Energy Scotland advice service to support SMEs.
- Our new virtual agency, Heat & Energy Efficiency Scotland, will accelerate transformational change in how we heat our homes and buildings.
- In its ‘Consumer protection in the green heating and insulation sector: Findings Report’, the Competition Markets Authority said (31 May 2023) **[QUOTE]**: “...*the approach taken by governments to provide centralised information and support to consumers is at different stages with some – particularly Scotland – further ahead than others..”*

HEAT PUMP PLANNING

We are consulting on the planning rules for domestic and non-domestic renewable energy equipment - including heat pumps.

- Heat pumps are one of the main solutions we see for decarbonising heating in Scotland.
- Currently heat pumps must comply with MCS Planning Standards, which require installations to meet certain noise limits (at or below 42 decibels from a metre distance away from any habitable room).
- We will use this public consultation exercise to gather further evidence on potential noise impacts before taking forward any changes.

COST OF THE HEAT TRANSITION

We continue to work with stakeholders and partners on other ways to support people and businesses through this transition.

- The public sector alone can’t and shouldn’t bear the full cost of converting homes and buildings.
- Our Green Heat Finance Taskforce will recommend ways to increase individual and private-sector investment.
- The Taskforce will make recommendations in 2023 on the range of approaches that the Scottish Government – working in collaboration with the private sector – should bring forward to support the scaled growth in private capital.
- I am encouraged by announcements from British Gas and Octopus Energy launching lower-cost heat pump offerings.

SUPPLY CHAIN AND SKILLS

Supporting Scotland's current and future workforce to develop the skills needed for the net zero transition is a priority for this government

- Scotland has a strong foundation on which to build our manufacturing supply chain with multiple Scottish based companies already in a strong market position (e.g. Mitsubishi Electric/Star Refrigeration/Sunamp).
- Many of the core trades and professions needed to support this already exist across the Scottish economy, and can be further developed through upskilling.
- Our Heat in Buildings Supply Chains Delivery Plan, backed by the £17.6m Green Heat Innovation Support Programme, sets out practical steps that we will take to support the growth of the green heat sector.
- The Plan outlines how building a Green Heat Sector will be a national endeavour requiring the support of organisations across industry and our public sector, as well as commitment from key anchor segments of the market.
- We will work in partnership with the sector to explore the potential for a mixed delivery economy involving both public and private sectors.
- We have invested in a new mobile training centre for heat pump installation to ensure training is equally available across all geographic areas.
- This will be accessible to any college in Scotland and will be capable of delivering on site training in rural areas.
- Scotland is leading the way in green job creation, and in its Green Jobs Barometer, (Dec 2022) PWC said **[QUOTE]**: “Scotland has the highest proportion of new green jobs to all jobs, at 3.3% (up from 2.2%)”.

UK GOVERNMENT ‘POWERING UP BRITAIN’ REPORT

The lack of new measures in the package for heat and energy efficiency are a missed opportunity.

- The Boiler Upgrade Scheme, which is being extended, was launched a year ago and has been described as “seriously failing” by the House of Lords.
- The support available (£5-6,000) remains less generous than the £7,500-9,000 available through the SG’s Home Energy Scotland scheme.
- Both the “ECO+ funding” and the £30 million Heat Pump Investment Accelerator were announced previously and are simply rebadged or re-announced.
- What we actually need from UK Government is certainty over the pathways for decarbonising heat and a commitment to end fossil fuel heating in buildings.
- We have said that we will consult this year on a proposed Heat in Buildings Bill which will set out plans to do just that.
- Mike Childs, Friends of the Earth’s head of policy, said (30 March 2023) **[QUOTE]**: “[UKG] Ministers should be scaling up and accelerating the race to net zero, but these plans look half-baked, half-hearted and dangerously lacking ambition.”

ANNEX: QUOTES FROM THE BUILDING PROFESSION

From the NBHS Consultation Responses

All the below respondents signed to confirm they were happy for their responses to be published.

Supportive of the NBHS:

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Expressing concern on the NBHS:

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