Royal Institute of British Architects

Department for Business, Energy and Industrial Strategy: Update to Green Finance Strategy: call for evidence

June 2022

The Royal Institute of British Architects is a global professional membership body driving excellence in architecture. We serve our members and society in order to deliver better buildings and places, stronger communities and a sustainable environment. Being inclusive, ethical, environmentally aware and collaborative underpins all that we do.

The RIBA welcomes the opportunity to respond to this call for evidence. On 29 June 2019 RIBA Council voted to join the global declaration of an environment and climate emergency, two days after the UK Government passed a law to require the UK to end its contribution to global warming by 2050 by bringing all greenhouse gas emissions to net zero.

The climate emergency demands urgent action and leadership by the Government, architects and the wider construction industry. The RIBA welcomes the Government's aim to ensure the financial services industry is supporting the UK's energy security, climate and environmental objectives. However, we believe that there is a need for greater ambition on behalf of the Government if we are to significantly improve the performance and reduce the environmental impacts of the built environment.

The RIBA recommends that the Government:

- Focuses on retrofitting our homes to demonstrate the UK is a leading global centre for green finance.
- Introduce a National Retrofit Strategy – a long term policy and investment programme for upgrading the energy efficiency of England's housing stock.
- Collaborate with the financial sector on, for example, green mortgages, green leases and Building Renovation Passports to promote private investment in energy efficiency.
- Ensure the UK Infrastructure Bank plays a key role in decarbonising our existing housing stock.
- Support local authorities to work with delivery partners and community-based organisations to promote what works locally.

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Royal Institute of
British Architects
66 Portland Place
London, W1B 1AD, UK

Phoebe MacDonald
Senior Policy & Public Affairs Advisor
phoebe.macdonald@riba.org

1. What are the key characteristics of a leading global centre for green finance?

Currently, a major investment gap for getting on track for net zero is supporting the decarbonisation of the built environment. Currently the UK has the least energy efficient housing stock in Europe, and it is expected that 85 per cent of the current stock will still be in use in 2050. In the UK 19 per cent of carbon emissions come from heating buildings, 77 per cent of which comes from heating homes.

The Climate Change Committee estimates that the total investment costs are £360 billion to 2050, of which around £250 billion is for the programme of upgrading homes and £110 billion in public and commercial buildings. Therefore, a focus on greener homes and buildings will be an essential characteristic of a leading global centre for green finance.

2. Do you consider the UK's green finance regulatory framework to be world-class?

To be world-class, the RIBA believes there is a need for further action to support the financing of the decarbonisation of the built environment to mobilise public and private investment.

6. What areas for potential growth – for example emerging financial products and instruments – are there in green finance for the UK financial services sector?

The decarbonisation of homes and buildings presents a significant potential growth area – with over 19 million homes required to be retrofitted to reach the Government's own target. However, the continuing absence of a comprehensive, cross-departmental plan for achieving these targets is a concern. Therefore, we suggest the Government bring forward a National Retrofit Strategy – a long term policy and investment programme for upgrading the energy efficiency of England's housing stock. Such a strategy requires green finance options, subsidies and incentives, and support for consumers.

Given the divergent nature of the UK's building stock, and the different financial circumstances of different households, there is significant potential scope for growth and innovation within the UK financial services sector. The Green Finance Institute's report: *Financing energy efficient buildings: the path to retrofit at scale* provides a series of financial innovation demonstrators designed to mobilise private capital to retrofit our housing stock. The Government should collaborate with the financial sector on, for example, green mortgages, green leases and Building Renovation Passports to promote private investment in energy efficiency.

In addition to innovation in green private finance offerings, there could be a role for blended finance to financing green homes and buildings. The UK Infrastructure Bank could play an important role – developing an attractive consumer offer inspired by the successful German KfW programme and offered via retail banks.

In Germany, projects which lead to the most efficient homes can access the most attractive rates and subsidies, incentivising greater ambition and promoting additional economic activity. The KfW loan can be used to cover 50% of the costs of hiring retrofit specialists on the German Energy Agency's list of accredited supervisors to oversee and plan the work, providing confidence to the household that the correct measures are being expertly installed. In 2016, KfW, invested €1.7 billion to incentivise energy efficient renovation through interest rate and capital subsidies. These incentives led to unlocking €8.4 billion from building owners – i.e. for every €1 invested, building

owners were motivated to borrow and spend €6. The resultant VAT on these revenues alone (€1.6 billion) nearly covered KfW's own costs.

Several factors have been important to the success of the KfW's energy efficiency programmes. The long-term nature of the programme, combined with favourable terms, relative ease of application and ability to link KfW packages together and with other sources of finance are all vital in making the schemes attractive. They incentivise energy efficiency upgrades at crucial "trigger points" like other home upgrades – like a new kitchen or loft conversion – or home purchases. The integration of the loans with connections to trusted sources of advice and the supply chain has been important to pave a smooth consumer journey.

7. How can the UK support a financial system that leverages private investment to meet the UK's climate and environmental objectives?

In order for the UK to support a financial system that leverage private investment to meet the UK's climate objectives, it is essential to consider the wider suite of measures which are needed in order for green finance to thrive. As highlighted in response to question 6, this cannot happen in a vacuum without additional regulatory drivers, incentives, subsidies, as well as support for consumers.

With regards to the flourishing of green homes finance, a suite of measures will need to be introduced - with cross-departmental coordination between the Department for Business, Energy and Industrial Strategy, HM Treasury, the Department for Levelling Up, Housing, and Communities and the UK Infrastructure Bank.

- **Long-term, regulatory market signals to the market, industry and consumers:** This can be done through confirming regulatory timelines for minimum energy efficiency standards for different housing tenures and the phase-out of fossil heating systems. Measures like requiring mortgage lenders to disclose the average energy efficiency of their lending portfolio could spur innovation and interest in financial products like green mortgages.
- **Improve the consumer experience through public engagement and trusted advice service**s: Making home retrofits straightforward will be critical to drive demand and underpin successful delivery. A dedicated advice service could be introduced, giving customers independent advice on energy saving measures and guiding them through choosing the right steps, finding local suppliers, and accessing relevant support.
- **Restructure incentives to encourage home retrofit:** There are structural changes the Government should make to incentivise action and investment. For example, introducing a sliding scale of Stamp Duty where the most energy efficient homes pay the least, could help spur people to undertake retrofit measures at the point of sale of a property, a common time when people consider home improvements.
- **Support attractive green finance options for people who want to invest further,** putting new reporting requirements on mortgage lenders and setting up concessional green home finance through the UK Infrastructure Bank in the medium-term.

8. How can the UK support a financial system that leverages private investment to meet the objectives of the British Energy Security Strategy, including in areas such as nuclear, hydrogen, carbon capture and storage and domestic oil and gas production, to reduce our reliance on imported fossil fuels as part of a smooth energy transition?

The publication of the Energy Security Strategy signals progress and should help to boost the UK's energy independence. However, the Strategy focuses on energy supply – which will not help to help

to tackle energy consumption or crippling price rises. The best way to cut bills and carbon emissions is to reduce energy use – to do this, we must improve the energy efficiency of our buildings.

We must urgently upgrade the building fabric of the country's housing stock and move away from a reliance on gas heating – both to reduce carbon consumption and to ensure homeowners are less vulnerable to volatile gas prices. This is a significant challenge, but one the Government must rise to through a well-funded National Retrofit Strategy.

10. How can the UK government assess and measure progress toward financing the UK's energy security, climate and environmental objectives?

Understanding how much actual energy a building uses is crucial to identify where, and which, energy efficiency improvements can be made. Operational energy, or energy measured at the meter, captures the actual energy usage of a building. This should be the primary metric for measuring the energy efficiency of a home.

However, the current tool used to measure energy efficiency, the Energy Performance Certificate (EPC) does not measure operational energy – making them an inaccurate measure of the energy efficiency of a building. Inaccurate measurements are often more acute in older buildings, which are required to utilise Reduced Data Standard Assessment Procedure (RDSAP) methodology to calculate a building's energy efficiency.

These issues mean that EPCs are often inaccurate and not an effective measure of the energy efficiency of a building.

In addition, EPCs were not intended to be a retrofit design tool. Because EPCs do not measure operational energy, improving the EPC rating of a building does not necessarily achieve meaningful energy reductions.

Given the concentration of poor energy efficiency amongst older homes, updating SAP and RDSAP so it better captures the actual operational energy use of a property, is key to improving the energy efficiency of our housing stock going forward.

It was welcome to see that the Government has acknowledged some of the problems with EPCs and consulted on how they could be reformed in 2018. The Government's response to the consultation, published in September 2020, was a step in the right direction by acknowledging that EPCs must better reflect real world performance. The Government must ensure this work is taken forward as quickly as possible.

12. Are there barriers to the mobilisation of private investment into transition activities? If so, what are they and how might they be overcome?

For the decarbonisation of the built environment, a number of market failures exist which are currently curtailing private investment from flowing to address these challenges. These include high upfront costs, lack of available financial support, and unclear government signals.

To date, efforts to retrofit our existing housing stock have been characterised by stop-start funding that led to boom and-bust cycles, ultimately leaving the largely SME suppliers of construction for retrofit with unsustainable business models. The Green Homes Grant was a welcome measure to help boost to demand, however, the axing of the scheme may have resulted in industry losing

further confidence in investing in the skills and supply chain needed to retrofit the UK's housing stock.

13. How can the UK become a leading hub in structuring and innovating on transition finance?

As noted in response to previous questions, suite of measures, delivered through a National Retrofit Strategy will be needed to spur leadership on green homes finance - including long-term regulations, subsidies and incentives, and support for consumers.

17. How can the UK financial sector support the delivery of the UK's climate and environmental objectives at the local level, whilst also benefitting local growth and communities?

Improving energy efficiency is the "no regrets" solution to the energy crisis, climate crisis, and levelling-up agenda.

Energy efficiency improvements reduce household energy bills, resulting in a sustained boost to the economy and consumption through increased disposable incomes in the long term. Some regions in the UK, for example the North East and West Midlands, have both a high volume of energy inefficient homes and high levels of unemployment. Investing in energy efficiency will create jobs across the country, often in areas that need it the most – providing local jobs for local people. Retrofitting homes also improves health outcomes and is integral to reaching net zero.

18. How can local authorities support the mobilisation of private and public investment to key sectors and technologies for the UK's climate and environmental objectives, whilst also meeting local priorities? What barriers to this are there?

Local authorities are key players in addressing the climate emergency and many have set themselves very ambitious targets to reach net zero, often well before the UK target of 2050. It is imperative that local authorities have the knowledge, skills, and clout to address carbon emissions from the built environment in their local area. This means there are significant opportunities for local authorities to support the mobilisation of private and public investment.

While local authorities are responsible for 2 – 5% of local emissions, they can potentially influence around a third of an area's emissions through place-shaping and leadership. However, there has been limited mention of the role of local authorities in many of the Government's recent net zero announcements and strategies. A lack of clarity on the role of local authorities and piecemeal funding have hampered local authorities' ability to plan and implement climate action strategies. A framework for delivery of climate targets, taking into consideration local contexts, is required to ensure cohesive and effective action.

Local authorities can play an important role in providing advice and information for residents and businesses on energy efficiency and low-carbon heating options. Raising awareness of the transition to net zero needs to be undertaken in sequence with practical support and options for action, so that people are supported. Local authorities must work with delivery partners and community-based organisations to promote what works locally.

In addition to raising awareness of the transition to net zero, local authorities should be empowered to use taxes, such as council tax, to incentivise private owners to retrofit their home.

19. What is the current state of capability within local authorities to attract investment, and how can it best be supported?

There is currently a scattering of technically assistance available across the UK, which the UK Infrastructure Bank could supercharge with support of Treasury. Across the country, there are local authorities and regional actors seeking solutions to the same problems. Time and resources can be saved through avoiding "reinventing the wheel". The Bank can offer a hub of information sharing to promote best practices and tried and tested investable propositions. This should be underpinned with thorough project evaluation so that other regions can learn lessons – for example, understanding how much energy is avoided by investing in an efficiency portfolio of homes.