



Department for
Communities and
Local Government

Members of the House of Lords

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Dear Colleagues

Following the session in Committee on your proposed new clause to the Housing and Planning Bill on setting a carbon compliance standard for new homes we said we would write back to the House on a number of points.

We share a lot of common ground in wanting new homes to be very energy efficient but perhaps there has been some misunderstanding of the Government's intentions in regard to this matter.

We said in the Productivity Plan in July last year that we would not proceed with the off-site carbon off-setting scheme ('allowable solutions'), which would not have benefitted the home owner and would have been a tax on housing development. We have not ruled out developing the energy performance standards of buildings through strengthened fabric standards or more efficient building services, however. But we need to allow current standards introduced in April 2014 to bed down so we have given the industry breathing space to implement what are already very challenging build standards.

We are keeping the energy performance standards under review. This will include an assessment of whether current standards are "cost optimal", which is required under the Energy Performance of Buildings Directive. This means looking to see whether the measures required by current standards are cost effective in terms of the balance of costs and benefits. If there is room to go further, the Directive requires Member States to take action to strengthen their standards. This review has to be completed by mid 2017. We expect to start this work shortly. I am very happy to consider any evidence that Noble Lords may have to inform that review and to keep Noble Lords informed of progress.

Moreover, the Directive also requires new buildings owned and occupied by public authorities to be nearly zero energy from 31 December 2018 with all other new buildings having to meet this requirement from 31 December 2020. These targets have already been transposed into the Building Regulations. The forthcoming review will help us identify what might need to be done over the rest of the Parliament to meet them.

There was discussion on the costs of meeting the carbon compliance standard and we said we would write with details of the research to establish the figure used. It was taken from independent Zero Carbon Hub's report, "Cost Analysis: Meeting the Zero Carbon Standard" (February 2014), which indicates that the lowest cost way of meeting the carbon compliance standard for a 3 bed semi-detached house would be £2,885 - largely achieved through the

installation of photovoltaic panels. This is shown in Table 1 of the report which can be found at: http://www.zerocarbonhub.org/sites/default/files/resources/reports/Cost_Analysis-Meeting_the_Zero_Carbon_Standard.pdf

Lord Krebs and Baroness Young referenced the joint research from the NHBC Foundation and Zero Carbon Hub on the energy bill savings. They noted the research showed a new semi-detached home built to the carbon compliance standard would save up to £1,220 a year on household energy spend. Whilst this figure is correct for a comparison with a similar Victorian property, the savings are considerably less if you compare it to a home built to the existing Building Regulations standard. This is the more appropriate comparison as the £3,000 uplift uses the current standard as the baseline. The difference is in fact £330 and this assumes also that the carbon compliance home would benefit from Feed In Tariff (FITs) payments of £200 a year based on the tariffs in place when that report was published, two years ago.

Baroness Young suggested that the additional costs of meeting the carbon compliance standard could be reflected in the price of the home and recouped in 3 years by home purchasers. As I've explained the proper comparison for the energy bill savings is £330, or lower, so the pay back period is much longer and dependent on FITs payments. However, it may not be possible for home builders to factor the additional costs into the price of new homes and the energy savings may not be valued sufficiently by home buyers. A builder of new homes is not just competing with other home builders, but also with the sellers of properties which come onto the market second hand - home builders are price takers, not price setters in the market. Also the evidence is mixed on whether home purchasers put a premium on energy efficiency and/or renewable energy measures such as photovoltaic panels.

Lord Foster asked about support from the house building industry to the pause on the energy performance standards for new homes. The strong support of the Federation of Master Builders (FMB) was mentioned in the debate and although Lord Foster considered that just the view of one organisation it should be pointed out the FMB is the largest trade association in the building industry, representing over 13,000 firms and it acts as the voice of small construction firms, who we wish to encourage.

Lord Foster also asked for an update on the Government funded work by Zero Carbon Hub on the potential gap between design and as-built energy performance of new homes. Since the publication of the Hub's '*End of Term Report*' on this in July 2014 actions have been taken forward by industry and Government to help industry meet its own target of reducing that gap, including:

- on-going work with the Construction Industry Training Board (CITB) to ensure as-built energy performance knowledge is embedded into training and up-skilling for professionals and operatives. This includes the recent publication of a series of good practice guides aimed at improving the construction quality of new homes;
- development by LABC with industry partners of registered construction details. These are a set of thermal details designed to minimise heat loss at construction joints in the building envelope. These are free to use by all in the industry and guide the builder on site to help prevent poor performing buildings and help to facilitate an effective inspection regime;
- development and implementation by Government of an improved technical competency framework for registered air tightness testers

- Government funding of work to improve the recording and accuracy of information input into the energy efficiency national calculation tool (SAP).

Lord Stunell asked about evidence on construction costs and number of homes built. For development to be commercially viable, the costs of development need to be factored into the price that builders pay for the land. This will include the costs of regulations. It is anticipated that additional costs of regulations will largely be passed back to landowners in reduced land value uplift (the difference between the value of their land with and without planning permission for housing development), if developers cannot charge a premium for a highly energy efficient home. This risks eroding the value of land for housing and potentially reduces the amount of land that will come forward for housing, especially in areas of lower house prices, higher existing/alternative use values and remediation costs. Impacts could be proportionately higher in areas where land values are low. For small house builders increased regulatory burden and construction costs will have a greater impact as pointed out by the Federation of Master Builders in its response to the Productivity Plan announcement.

I hope this letter provides you with reassurance that the Government is committed to a review of energy performance standards for buildings and to supporting home builders – of all sizes – increase the number of new energy efficient homes that are desperately needed.

I am very happy to meet with any Noble Lord who wishes to discuss this further.

I am sending a copy of this letter to colleagues who spoke in the debate and I will place a copy in the House library.

A handwritten signature in cursive script that reads "Williams of Trafford". The signature is written in dark ink and is positioned in the lower middle section of the page.

BARONESS WILLIAMS OF TRAFFORD