



Glasgow City Region Cabinet

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Item 5(d)

13th February 2024

Glasgow City Region Housing Retrofit Update

Purpose of Report:

This report provides Cabinet with an update on recent housing retrofit activity, including:

- i. the workstreams identified in the report to Cabinet in October 2021; and
- ii. an overview of the Scottish Government's Energy Efficiency Scotland: Area Based Schemes (EES:ABS) funding and related challenges.

Recommendations

Cabinet is invited to:

- a) Note the content of the report; and,
- b) Agree the next steps as set out in Section 7;

1. Purpose

- 1.1. This report provides the Glasgow City Region Cabinet with an update on recent housing retrofit activity, including:
- i. the workstreams identified in the report to Cabinet in October 2021; and
 - ii. an overview of the Scottish Government's Energy Efficiency Scotland: Area Based Schemes (EES:ABS) funding and related challenges.

2. Background

- 2.1. In October 2021, the Glasgow City Region Programme Management Office ('the PMO') updated the Cabinet on the key findings from the Strategic Programme Business Case on home energy retrofit, developed by consultants Grant Thornton.
- 2.2. The Glasgow City Region PMO team have a role to support each of the eight regional member authorities to share knowledge and understanding of retrofit related activity and co-ordinate opportunities for joint action or sharing of lessons learned. Retrofit activity is delivered directly by each of the member authorities.

3. Workstream Updates

- 3.1. The report presented to Cabinet in October 2021 highlighted six specific workstreams and an update for each is provided in the following sections.

Supply Chain: Market Capacity/ Capability, Quality Assurance, and Management

- 3.2. This has been driven by Scottish Enterprise which commissioned BE-ST (formerly Construction Scotland Innovation Centre) to deliver a study into the scale and nature of market opportunities for Scottish businesses across energy efficiency within the retrofit market, both in the UK and internationally.
- 3.3. [The Energy Efficiency Market Analysis and Opportunity Assessment \(2023\)](#) report makes recommendations for Scottish Enterprise and the Scottish Government. These include:
- Raising awareness about potential material suppliers and providing capital investment to help new local suppliers enter the market;
 - Funded large scale support for the accreditation of suppliers to meet the technical standards for retrofit and energy efficient homes; and
 - Identifying opportunities for large-scale neighbourhood retrofit, including development of business models, and engaging with the Scottish Government's Green Heat Finance Taskforce to pilot new finance models.
- 3.4 A recurring theme in the report is the importance of a guaranteed pipeline of investment in retrofit to stimulate demand and result in fostering subsequent supply chain investment in skills and resources. There is a view that the pipeline of anticipated investment in retrofit does not yet warrant the level of supply chain investment in skills and resources with one private sector consultee commenting - *"Component manufacturers need a 10-year certainty in pipeline before they are likely to look at large scale investment."*

Owner Occupiers

- 3.5 GCR's Strategic Outline Business Case demonstrated that over 70% (approx. 300,000) of the 428,000 least energy efficient properties in GCR are owner occupiers, who will require financial and practical support to retrofit their properties. Work around the development and establishment of new and additional financial models and products to support owner occupiers has been led nationally through the Scottish Government's [Green Heat Finance Taskforce](#) (GHFT), established in February 2022 and chaired by Patrick Harvie MSP, Minister for Zero Carbon Buildings.
- 3.6 The PMO gave evidence to the Taskforce in January 2023, describing the work carried out to date in GCR and requesting that the Taskforce's findings assist in the acceleration of retrofit activity in the City Region, potentially through a funded pilot project to test new approaches.
- 3.7 The [Part 1 Report](#) was published on 22 November 2023 and "*focuses on [financial] products which are suitable for individual property owners*". The Taskforce will "*continue working towards publishing a Part 2 Report in 2024*" that will cover retrofitting finance options for social housing, area-based mechanisms, including district heating, neighbourhood financing mechanisms, the potential of municipal bonds, quasi equity-based funding, aggregation financing, as well as heat as a service model.
- 3.8 The recommendations and actions from the Part 1 Report are all directed to the Scottish Government. These are set out below:
- i. Scottish Government, from early 2024, should work with the Green Finance Institute, Scottish Financial Enterprise and others to expand current market engagement with brokers, finance providers, distributors and quantity surveyors to generate greater public awareness of financing products like green mortgages and encourage their expansion;
 - ii. Scottish Government should begin work, from early 2024, in partnership with the Equity Release Council, to develop an information framework and guidance for Green Retrofit Equity Release products;
 - iii. Scottish Government should research co-investment vehicles – blended finance with public and private input – with the support of the Scottish National Investment Bank, Scottish Financial Enterprise and Scottish Futures Trust, to identify by the end of 2024 where and how to test the approach in Scotland;
 - iv. Scottish Government should collaborate with the Green Finance Institute to research the potential for Property Linked Financing in Scotland, with a view to establishing a scalable demonstrator by May 2025;
 - v. Scottish Government should review and publish, by the end of 2024, the potential of incentivising domestic property owners to increase levels of retrofit works through fiscal and taxation policy;
 - vi. Scottish Government should review and publish, by the end of 2024, analysis of how non-domestic rates reliefs can better support and encourage investment in energy efficiency and ZDEH;
 - vii. Scottish Government should seek to mitigate the split incentive issue by researching and piloting, by early 2025, the potential for green rental agreements, to encourage retrofitting in rented properties;
 - viii. Scottish Government should immediately engage the UK Government and regulators to drive action on ZDEH and energy efficiency deployment, and support coordination of activities between parties; and
 - ix. Scottish Government should, by mid-2024, map current heat in building data gaps and establish a framework to promote open data sharing to address these.

Training and Reskilling

3.9 SDS is currently concluding a study on the decarbonisation of domestic and commercial heating across Scotland through the *Skills Development Scotland (SDS) Climate Emergency Skills Action Plan (CESAP) – Heat Decarbonisation Study*. When published, the final report will include a pilot analysis of Glasgow City Region.

3.10 This report seeks to understand and evidence future skills needs that support the transition to net zero, improve understanding of gaps (real or perceived), and highlight issues likely to impact on skills for heat decarbonisation.

3.11 The initial areas for action include:

- Curriculum: Building upon individual college/provider strengths and specialisms to promote a comprehensive City Region offer with ability to upscale; Scottish Funding Council and Glasgow Colleges' Regional Board to confirm flexibilities within current credit system and any other funding.
- Integrated business support: Visibility of, alignment with, and possible enhancement to, business support for green skills funded through UK Government's Shared Prosperity Fund (SPF) and Scottish Government's No One left Behind (NOLB) Programme; support greater industry engagement and vendor support and accreditation
- Outreach and engagement: Promotion to both learners and business involving national and regional partners and assets.

3.12 A draft of the SDS report, shared with the GCR PMO, highlights a lack of certainty around the pipeline of guaranteed investment in retrofit as a fundamental challenge:

"The anticipated costs of the heat decarbonisation transition are estimated to be around £33bn [for Scottish residential property]. While some funding will be available from UK and Scottish Government to support this, private investment and consumers are expected to contribute to most of these costs... The Scottish Government has committed to investing at least £1.8 billion for heat and energy efficiency deployment in Scotland during this Parliamentary Session... The critical point is that the value of investment planned is relatively small in comparison to the total cost."

Data

3.13 The availability of reliable and accurate data to support retrofit activity is limited. The previous report prepared for GCR by Grant Thornton made use of the Home Analytics database, however this source has limitations and further work is required to improve our understanding of GCR's domestic property.

3.14 The GCR Intelligence Hub have been leading on the "5G Innovation Region: Using Technologies to Better Deliver Local Services" Project which uses Internet of Things (IoT) deployments and smart city applications to create use cases for utilising advanced wireless technologies in public and private sector service delivery. The £3.2M project will focus on four workstreams, one of which is Net Zero Monitoring in Social Housing which will introduce monitoring capability into net zero homes to evidence improved energy efficiency.

3.15 GCR PMO and MAs have been invited to support several academic projects to improve understanding of our retrofit requirements, including:

- i. The AD-JUST project, led by the Urban Big Data Centre at the University of Glasgow, proposes to use new forms of data to gather information about building energy performance and household use of energy.
 - ii. The CHECA (Centre for Health Equity and Climate Action) Project, led by the University of Glasgow, seeks solutions for hard to decarbonise housing and difficult to reach households. This project aims to understand and monitor retrofit efforts in both Glasgow and Sheffield city regions.
 - iii. There are also proposals for two separate projects with Glasgow University and Strathclyde University seeking to install monitors in social housing to measure indoor conditions and better understand the impact of human behaviour on indoor air quality and energy consumption.
- 3.16 In addition, a survey of Registered Social Landlords (RSLs) was undertaken by Glasgow City Council's Retrofit Team in Summer 2023 to aid the development of a city-wide retrofit strategy. The survey sought to better understand approaches to retrofit in the social rented sector in Glasgow. Only a quarter of respondents (9 out of 39 RSLs) are currently involved in retrofit projects which are complete or in-progress. There was a sense of unease about the Scottish Government's current Energy Efficiency Standards in Social Housing (EESH2) review, with 97% of respondents (38 out of 39) concerned that current stock may not meet revised standards and hesitant to commence retrofit activity. The Scottish Government launched their consultation on the new Social Housing Net Zero Standard, which will replace EESH2, on 28 November 2023. This consultation will run for twelve weeks until 8 March 2024.

Governance

- 3.17 The GCR Housing Retrofit Delivery Group was established in September 2022 comprising all eight MAs, alongside Skills Development Scotland, Scottish Enterprise, and other representatives as required, including Scottish Government, and meets regularly to discuss the priority workstreams.
- 3.18 Recent discussions at the Group brought forward a proposal to develop a GCR Retrofit Strategy that complements the strategies and action plans of individual MAs, captures the scale of ambition across the Region, and emphasises where collaboration adds value. A recommendation to develop a Regional Retrofit Strategy was taken to the Chief Executives' Group on 6 December 2023 and granted approval to proceed. At the most recent Delivery Group meeting on the 18 January 2024, it was agreed that baseline information from each member authority will be gathered through a survey that will help to shape next steps in the regional strategy development.
- 3.19 The GCR PMO continues to review other examples of retrofit delivery, including the Sustainable Energy Authority of Ireland's (SEAI) Home Energy Grant programme as well as programmes operated in other nations, such as Italy and Germany. It is of note that the following best practice examples are all programmes which are established and funded nationally.
- 3.20 Ireland's SEAI programme seeks to retrofit 500,000 homes by 2030, with the following offerings for homeowners.
- i. [Better Energy Homes](#), provides individual energy upgrade grants. This will part fund homeowners and landlords who manage their own upgrade works, with the grant being provided once works are complete and paperwork submitted.

- ii. [The National Home Energy Upgrade Scheme](#), which offers a “one stop shop” for homeowners. This will provide grants to part-fund works through an SEAI registered private company who will manage and deliver retrofit works. This option offers a wider range of grants than homeowners and landlords could access alone, and the grant is deducted from the cost of works upfront.
 - iii. [The Warmer Homes Scheme](#) comprising a fully funded energy upgrade for qualifying homeowners (those in receipt of specific welfare benefits).
 - iv. The [CU Greener Homes Scheme](#) is a partnership between a major energy provider (Energia) and participating credit unions. SEAI grants can be accessed and Energia will provide additional financial support for those who undertake eligible works with participating credit unions also offering low interest home improvement loans to support homeowners to undertake retrofit activity.
- 3.21 The programmes detailed above are developed, managed and funded by the Irish Government, rather than local authorities, except from the Warmer Homes Scheme which also incorporates European ERDF funding.
- 3.22 The Italian Government, introduced the “Superbonus 110” scheme in 2020. This scheme enabled homeowners to carry out home improvements to improve the energy efficiency of their homes, and then claim 110% tax credits, by subtracting the cost of works from their tax returns over a five-year period. The scheme has been extremely popular and fueled Italy’s economy post-pandemic, despite this it recently ended amongst concern that the scheme contained too few checks which left it open to fraudulent claims and the scheme criteria wasn’t tied closely enough to net zero objectives and innovation.
- 3.23 The German Government’s Federal Ministry for Economic Affairs and Energy offer homeowners, the “On-site Energy Consulting Programme”, where grants are provided to cover up to 60% of the costs for an independent energy advisor to undertake an audit of the property and provide a bespoke plan to improve the energy efficiency of the property. This assessment also provides the homeowner with a cost estimate, an assessment of the financial benefits of different measures, and provides advice on funding available. Finally, the homeowner can ask that the plan focuses on incremental steps or a whole house renovation. In addition, the Federal Ministry for Economic Affairs and Energy provides funding through the “CO2 Building Modernisation Programme” for loans or grants to support retrofit, with a higher level of support offered to those properties who are making the building more energy efficient as well as loans and grants for those building their own energy efficient home or buying a newly renovated energy efficient property.

Stimulate Market Demand through a pipeline of work

- 3.24 The need for certainty in the pipeline of future retrofit activity is a recurring constraint in the upscaling of delivery of retrofit activity. This was one of the key concerns referenced in the Grant Thornton report for GCR and was referenced as a key constraint in the report produced for SE by BE-ST and the work undertaken for SDS for the skills requirements of the Climate Emergency Skills Action Plan (both referenced above).
- 3.25 As mentioned above, the Part 1 Report from the Green Heat Finance Taskforce has been published. However, it does not include concrete proposals for implementation of new financial mechanisms and products for homeowners to retrofit their properties. The GCR PMO indicated to the Taskforce during the evidence session in January 2023, and subsequently, that GCR’s willingness to consider piloting potential new funding mechanisms and would welcome a further discussion with the Scottish Government.

- 3.26 It is expected that the Part 2 Report from the Taskforce will play an important role in stimulating market demand through the creation of new financial mechanisms and products for homeowners to retrofit their properties. It is understood that this report is due for publication at the end of April 2024.
- 3.27 The Scottish Government's [announcement](#) on 28 November 2023 that the date to phase out the use of gas boilers in domestic properties has been pushed back from 2025 to 2028 may contribute to some of the broader uncertainty about the future pipeline for retrofit activity.
- 3.28 In addition, the recent [Audit Scotland Report](#) on Decarbonising Heat in Homes, states that the Scottish Government will not be able to phase out fossil-fuel home heating systems by 2045 unless it significantly increases the scale and pace of activity.

4 Energy Efficiency Scotland: Area Based Schemes (EES:ABS)

- 4.1 The Scottish Government's Energy Efficient Scotland: Area Based Schemes (EES:ABS) programme provides a funding allocation to all local authorities to deliver energy efficiency measures, mainly external wall insulation, to owner occupied and private landlord properties. The programme is administered by local authorities. EES:ABS is a voluntary scheme whereby owners/landlords "opt in" to participate in a project.
- 4.2 The EES: ABS programme targets "fuel poor" households in geographical areas:
- within the lowest 25% of the Scottish Index of Multiple Deprivation (2020);
 - in Council Tax Band A-C and Tax Band D in certain conditions;
 - not included in the area of operation of Registered Social Landlords (RSLs) and/or have consequently missed out on investment programmes; and
 - areas where people are living with conditions vulnerable to cold temperatures.
- 4.3 Each MA is required to identify project areas in line with the Area Based Scheme (ABS) Programme Guidance issued by the Scottish Government. The most recent Programme Guidance, has for the first time been published to cover a three year period from 2023/24 until 2025/26, whilst this is welcomed by the regional authorities, the financial allocation still only covers a one year period.
- 4.4 The retrofit activity funded through EES:ABS is designed by Scottish Government and delivered by local authorities. Within GCR, EES:ABS activity is mostly delivered internally by MA officers with the exception of Inverclyde which employs a delivery partner to manage and deliver its activity, West Dunbartonshire which uses a local delivery partner for a portion of its programme, and Renfrewshire which has also used a managing agent to deliver a portion of their programme since 2021/22. It is understood that other regional MAs are currently exploring use of a delivery partner.

5 EES:ABS Expenditure

- 5.1 Whilst the funding allocation across the Glasgow City Region Member Authorities has increased each year, the proportion of this funding that has been spent has reduced, as well as the amount of unspent EES:ABS funding returned to the Scottish Government.
- 5.2 There is a national trend in the difficulty of local authorities being able to spend their EES:ABS grant allocations within the short timescale. COVID has had an impact on the ability of local authorities to deliver retrofit activity however the decline in spend of EES:ABS predates COVID and is a trend that has continued into the subsequent years.

5.3 Upon further examination by the GCR PMO it was found that only 5 of Scotland's 32 local authorities spent their full grant allocation in 2021/22, this is in comparison to 18 local authorities who were able to spend their full grant in 2017/18. There is a national issue for the Scottish Government regarding the ability of local authorities to effectively deliver retrofit activity through EES:ABS funding, with the implications this will have for national net zero targets.

6 Challenges associated with the delivery of EES:ABS funded activity

6.1 The GCR PMO has engaged with officers delivering EES:ABS activity across Glasgow City Region to better understand the delivery challenges. These are summarised in the following sections.

6.2 A letter was sent by Kevin Rush, Director for Regional Economic Growth, to the Scottish Government on 2 February 2024, which highlighted the concerns below and requested flexibility in approach to resolve a number of these matters; *specifically in relation to funding timescales, flexibilities in the funding criteria, clarity around owner contributions, support for a continuation of multi-year funding, and a broader evaluation of the effectiveness of EES:ABS in achieving the programme's objectives.*

6.3 Timescales

It was identified that there are a number of 'pinch points' within the funding process which can cause delays in delivery:

- i. **Requirement to submit a full programme of works for SG approval and timing of the publication of the annual guidance** - This cannot be completed until the guidance is published and reduces the already short timeframe available reporting. The guidance is often published close to deadlines for bid submissions so by the time grant offers were issued, a few months had passed, reducing the period in which the grant can be spent.
- ii. **The issue of grant offer letters confirming EES:ABS funding allocation** - The grant letters confirming funding are often not received until well into the financial year (e.g. one MA received their grant offer on 31 August) resulting in a reduced timeframe to tender, procure and carry out the works.
- iii. **Short-term nature of annual funding** - MAs indicated that annual funding caused uncertainty, meaning they're unable to procure work beyond the financial year. Some MAs stated that they do not start procuring until they have certainty on the grant offer. To note, the most recent guidance document covers a 3-year period (2023-26). Indications are that the Scottish Government is considering 3 year EES:ABS funding for future cycles and it is understood that this is currently with the Permanent Secretary for approval.
- iv. **Procurement timescales** - Procurement processes can add a significant time delay. Those MAs which manage housing stock indicated that they are able to procure contracts for core activity and add EES:ABS onto this, however those that do not manage stock require to procure individually.

6.4 Costs

Factors related to costs were also highlighted:

- i. **Increased cost of materials, PAS 2035 Requirements, and Owner Occupier Contributions** - Increased material costs & costs to meet PAS 2035 standards

have increased the overall retrofit costs, and therefore increased the contribution owners are required to make towards an EES:ABS intervention on their property – the range of owner contribution was indicated as typically being between £640-£4,500. The Scottish Government recently provided guidance advising that the contribution from owners should be ‘soft capped’ at £950. If this is followed, then it is unclear where additional funding will come from to meet any shortfall. MAs have expressed concerns about being unable to cover the shortfall. Some MAs advised they are unable to secure contractors to carry out some of the specific technical work required by PAS guidance.

- ii. **Complex process for owner occupiers to access loans** - The funding sources available to assist home owners are not aligned to the EES:ABS timescales. Interest free loans are available from SG through Home Energy Scotland to assist owners. However, MAs have advised that the process is arduous and drawn out, resulting in people missing out on retrofit works as the decision to approve their loan is not made in time.
- iii. **Prevention of blending funding** - Many MAs noted that they were previously able to blend EES:ABS funding with Energy Company Obligation (ECO) funding, and other sources to reduce the costs for owners. The Department for Energy Security & Net Zero issued guidance preventing use of ECO funding with other public funding, leading to increased costs for owners.
- iv. **Complex property types** - Challenges related to retrofit of non-traditional and rural properties was raised. Many of the less complex properties have already been retrofitted and there is now a focus on these non-traditional properties. It can be expensive to deliver External Wall Insulation (EWI) in the non-traditional properties and will cost more than the financial threshold set in the Scottish Government criteria.

6.5 Other Issues

- i. **Engagement with Private landlords** - Funding available to private landlords excludes those owning three or more properties. While not arguing that public money should be used to subsidise a private business, this often slows down or completely halts retrofit activity and can result in entire blocks of flats not progressing with retrofit where one is owned by a private landlord.
- ii. **Mixed tenure** - There is a fundamental challenge with mixed tenure housing where there is the inability or the unwillingness of homeowners and landlords to participate.

7 Proposed Next Steps

7.1 The proposed next steps are set out below:

- i. The Glasgow City Region Housing Retrofit Delivery Group will lead on the development of the GCR Domestic Retrofit Strategy.
- ii. A further Housing Retrofit update will be provided to Cabinet at the end of 2024 seeking Cabinet approval for the Strategy.

8 Recommendations

8.1 The Glasgow City Region Cabinet is invited to:

- i. Note the content of the report;
- ii. Agree the next steps as set out in Section 7.