
NORTH AYRSHIRE COUNCIL

20 February 2024

Cabinet

Title: Social Housing Net Zero Standard (SHNZS) Consultation

Purpose: To provide Cabinet with details of the proposed new Social Housing Net Zero Standard (SHNZS) and to seek approval of the proposed response to the Scottish Government consultation.

Recommendation: That Cabinet: (i) notes the potential implications arising from the introduction of the Social Housing Net Zero Standard; and (ii) approves the proposed response at Appendix 1 to the consultation document.

1. Executive Summary

- 1.1 North Ayrshire Council has been improving the energy efficiency of its housing stock in accordance with the Energy Efficiency Standard for Social Housing (ESSH) since its introduction in 2014. We have performed well against the original standard; in 2023 we achieved 98.7% compliance.
- 1.2 A second edition of the standard (ESSH2) was confirmed in 2019, setting a target date of 2032 for compliance. In October 2022, the Scottish Government announced a review of the planned ESSH2 standard in the wider context of the target for net zero heat homes, as set out in the Scottish Government's Climate Change Update, the Heat in Buildings Strategy, and the Housing to 2040 Route Map.
- 1.3 In response to this review, the Scottish Government has launched its consultation on a new 'Scottish Housing Net Zero Standard' (SHNZS) which will replace ESSH2.
- 1.4 The proposed SHNZS builds upon the Scottish Government's commitment to a fabric first approach and proposes: a new fabric efficiency rating measured in kilowatt hours per metre squared (kWh/m²) per year (level to be confirmed); and a requirement to replace polluting heating systems with a clean heating alternative by a backstop date of 2045.
- 1.5 There are a number of implications arising from the proposed introduction of the new SHNZS, and these are set out within the report below and within the proposed consultation response attached at Appendix 1. Cabinet approval is sought for submission of the consultation response to the Scottish Government.

2. Background

2.1 The new SHNZS builds on the previous Energy Efficiency Standard in Social Housing (ESSH). ESSH was introduced in March 2014 and set a first milestone for social landlords to meet by 31 December 2020. A second milestone (ESSH2) was confirmed in June 2019, for social rented houses to meet by December 2032. The ESSH2 milestone was that:

‘All social housing meets, or can be treated as meeting, EPC Band B (Energy Efficiency rating), or is as energy efficient as practically possible, by the end of December 2032 and within the limits of cost, technology and necessary consent.’

2.2 North Ayrshire Council’s housing stock has performed very well when measured against the original ESSH standard, reaching 98.7% compliance in 2023. The relatively small percentage of failures are of a construction type or layout that means further adaptations are not practical to install. Despite our high performance when measured against the ESSH standard, less than 8% of North Ayrshire Council properties met the requirements of the proposed ESSH2. This was typical across other local authorities and Registered Social Landlords (RSLs).

2.3 In March 2021, the Zero Emissions Social Housing Taskforce (ZEST) was convened by the then Minister for Local Government, Housing and Planning. The Taskforce reviewed the opportunities, barriers, and solutions for social housing in order to maximise its contribution to the Scottish Government’s climate change targets, including in response to feedback in terms of the challenges of meeting ESSH2 across the social rented housing sector.

2.4 Interim guidance on the implementation of the ESSH2 standard was then issued by the Scottish Government on 31 October 2022. This guidance suspended the ESSH2 milestones and the reporting of stock performance against the revised standard (reverting back to ESSH1) until the ZEST review was completed.

2.5 The ZEST report was published in August 2021 and recommended that a review of the current ESSH guidance be brought forward and to agree new milestones which were more closely aligned with the national 2045 net zero target.

2.6 The Scottish Government has now published its consultation on the replacement for ESSH2, which will be called the Social Housing Net Zero Standard (SHNZS).

2.7 The consultation period closes in March 2024, following which the Scottish Government will commission an independent analysis of the feedback received. The new Standard is expected to be introduced by 2025 at the earliest.

The Proposed Standard

2.8 The SHNZS proposes a new fabric efficiency rating (which focuses on the amount of energy for heat consumed by a property) measured in kWh/m²/year. The level and implementation date will be confirmed after consultation. This reflects a change from ESSH2, which relied on an Energy Performance Certificate (EPC) rating.

2.9 Alongside other provisions, the SHNZS also includes a requirement to replace polluting heating systems with a clean alternative by a backstop date of 2045. Interim target dates will be confirmed after consultation.

SHNZS Implications

2.10 If introduced, the proposed SHNZS would have a variety of implications for the Council, with the main challenge being financial. The steps required to achieve EESSH and EESSH2 were not funded by the Scottish Government and this is set to continue under the SHNZS. While funding is provided indirectly through the Strategic Housing Investment Plan for new-build properties, improvement of our current stock has been funded through rental income. The consultation paper has estimated that the costs for the provision of the clean heating element of the new standard national are £4.6 billion.

2.11 Currently, £132m has been allocated in the Council's 30 Year HRA Business Plan to make energy efficiency improvements within the existing stock. Existing capital plans also include £111m for heating replacement, however, this is based on provision of gas systems. Initial estimates for replacing gas systems with air-source heat pumps indicate costs in the region of £370m alone. This underlines the scale of the funding gap, and does not include additional fabric improvement investment required to meet the proposed new fabric efficiency rating.

2.12 At present, however, the full costs of meeting the proposed new SHNZS cannot be fully quantified as the technical requirements of the Standard are not yet confirmed. Also, there is likely to be a need for data relating to our existing stock to be updated to align with the new Standard's requirements.

2.13 There a variety of other implications which are reflected in the proposed consultation response at Appendix 1. Some of the key concerns include:

- Clean Heating –alongside the financial implications noted above, there are technical challenges associated with retrofitting air source heat pumps (space requirements internally, implications of new, larger radiators required), and additional disturbance to tenants and additional maintenance costs. The running costs of clean heating will need to be carefully considered to ensure tenants are not put at greater risk of fuel poverty.
- Fabric improvements – to meet the proposed standard and ensure the viability of clean heating systems, the majority of properties will require additional fabric measures. Full costs for fabric improvements are unknown at this time, however officers are progressing a pathfinder project on a sample of our housing stock to gather detailed information in this area, and consideration will also need to be given to cyclical replacement of these measures.
- Air Tightness – additional costs arising from the design, installation and maintenance of mechanical ventilation systems will be required following enhanced fabric measures to ensure adequate ventilation arrangements and address additional risks of increased condensation, dampness and mould issues.

- Business Planning – major revision of the 30 Year HRA business plan will be required to ensure delivery aligns with the SHNZS proposals, with significant financial pressure as a result.
- Multi-tenure – the proposed SHNZS is likely to only be achievable if additional funding sources are made available to support private owners' involvement with retrofit works in multi-tenure blocks.
- Infrastructure concerns – it is unlikely that the current national electricity infrastructure has sufficient capacity to cope with increased electrification of heating.
- Skills and supply chain- new training and skills development will be required for Building Services and our external contractors in relation to installation, maintenance and repair of new systems, alongside development of the supply chain to ensure adequate availability of systems and replacement parts.
- Tenant engagement – the move towards clean heating systems will require extensive tenant engagement to ensure buy-in of changes and effective operation of alternative heating systems.

2.14 The proposed consultation response at Appendix 1 welcomes the principles of the new Standard, which align with the Council's net zero aspirations, but clearly articulates the need for detailed further discussions in relation to the financial, technical and other challenges that the new Standard would bring.

2.15 Although we cannot currently quantify the full impact of the proposed new SHNZS, without significant support from external sources, the full cost will require to be borne by tenants' rents. This raises significant concerns in relation to affordability and therefore deliverability. There is an opportunity for the Scottish Government to further consider grant funding arrangements to 'pump-prime' early adoption and delivery of the fabric measures and new clean heating systems required to stimulate the supply chain and establish more sustainable costs for future delivery of the SHNZS.

3.0 Proposals

3.1 It is proposed that Cabinet:

- (i) notes the potential implications arising from the introduction of the Social Housing Net Zero Standard; and (ii) approves the proposed response at Appendix 1 to the consultation document.

4.0 Implications/Socio-economic Duty

Financial

4.1 The current HRA 30 Year Business Plan does not include provision for the full, proposed SHNZS requirements. The costs and associated impact on the HRA Business Plan will need to be carefully considered taking account of inflation, cyclical replacement and maintenance once further clarity on the final SHNZS is provided.

Human Resources

- 4.2 The implementation of the new SHNZS may have additional human resource implications. This will be confirmed when the detailed nature of proposals are clarified.

Legal

- 4.3 There are no legal implications arising from the report.

Equality/Socio-economic

- 4.4 There are additional costs associated with implementation of the fabric improvements and clean heating solutions associated with the new SHNZS. This is likely to have implications for future rent levels. The consultation response also notes the risk of higher running costs associated with electrified heating systems, which could put tenants at greater risk of fuel poverty.

Climate Change and Carbon

- 4.5 The proposals aim to:

- make a positive contribution to national carbon reduction targets;
- contribute to the North Ayrshire Council Climate Emergency declaration and commitment to be a net zero authority by 2030; and
- contribute to the delivery of the Sustainable North Ayrshire Strategy

Key Priorities

- 4.6 The proposals contained within the report support the North Ayrshire Council Plan priority of addressing climate change and ensuring the provision of high quality housing.

Community Wealth Building

- 4.7 There are no immediate Community Wealth Building implications arising from this report.

5.0 Consultation

5.1 A number of services were involved in the preparation of the consultation response, including:

- Property Management and Investment
- Housing Services
- Energy and Sustainability
- Building Services
- Building Standards

RUSSELL McCUTCHEON
Executive Director (Place)

For further information please contact **David W. Hammond, Head of Sustainability, Corporate Property & Transport**, on 01294 324514.

Respondent Information Form

Please Note this form **must** be completed and returned with your response.

To find out how we handle your personal data, please see our privacy policy:
<https://www.gov.scot/privacy/>

Are you responding as an individual or an organisation?

- Individual
 Organisation

Full name or organisation's name

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The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

- Publish response with name
 Publish response only (without name)
 Do not publish response

Information for organisations:

The option 'Publish response only (without name)' is available for individual respondents only. If this option is selected, the organisation name will still be published.

If you choose the option 'Do not publish response', your organisation name may still be listed as having responded to the consultation in, for example, the analysis report.

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

- Yes
 No

Questionnaire

Question 1

To what extent do you support the use of a fabric efficiency rating, based on heat demand, in the SHNZS?

- Strongly support
- Somewhat support
- Neither support nor oppose
- Somewhat oppose
- Strongly oppose
- Don't Know

Please include any additional comments below.

The introduction of the proposed rating would support national and local net zero targets. The rating would support the proposed energy efficiency standard (fabric measures) for the Heat in Buildings Bill, which is currently out for consultation. The rating would complement national fuel poverty targets and support reduced energy costs for tenants. North Ayrshire Council's Local Heat and Energy Efficiency Strategy has identified specific fabric measures which would improve energy efficiency and reduce fuel poverty, supporting the new rating proposal.

This approach should also incentivise improvements to fabric efficiency as it gives a clearer measure of fabric performance and will align with changes to the EPC.

We suggest further information will need to be provided to identify the most suitable fabric upgrades, for example data relating to the fabric performance of the property to ensure modelling is accurate and aligns to the new calculation method.

The Council is currently progressing a pathfinder project to help determine the different levels of fabric improvements possible for our stock types, achievable performance gains, and the associated costs to both the Council and the tenants in terms of capital, operating and lifecycle costs to inform our preparedness for the new standards.

We would support the new rating being linked to or replacing existing assessments e.g. EPCs and alignment with Building Standards where these are applicable to the work being undertaken.

Our principal concern is in relation to affordability and the burden the new standard will place on tenants due to the anticipated costs involved. We consider it essential that Scottish Government makes addition funding available in the first instance to support early delivery through pathfinder projects, which would develop further understanding on new technologies and stimulate the supply-chain to drive costs down to a more sustainable level. This 'pump-priming' is a similar approach to that taken in encouraging installation of solar panels, electric vehicle charging infrastructure etc.

Question 2

Of the options presented for the fabric efficiency rating, which one do you support for the new SHNZS?

Option 2 - kWh/m² - Space Heating only

We would be supportive of the incremental approach (for example with an EPC 'C rating' by 2033 and EPC B by 2040).

This will provide a clear initial target with a back-stop date for full compliance.

Within the options, we support the space heating demand only measure to ensure that the fabric efficiency rating provides a baseline to measure against, should non-fabric measures be introduced (i.e. changes to heating/hot water/solar PV etc.)

The fabric of the building should be viewed as a long-term feature, whilst hot water systems have a shorter life span. Including domestic hot water demand within the calculation may complicate the metric and lessen the focus on the fabric measures. We also believe that mixed tenure and mixed use properties and different legislative timescales could pose challenges for fabric retrofits in terms of achieving economies of scale and securing support from other owners to proceed with improvements.

Question 3

Are there additional options for the fabric efficiency rating that you think should be included? If yes, please describe these here:

No; we have not identified additional options for fabric efficiency rating. We would urge that there is consistency with any ratings/standards across housing tenures to avoid confusion.

Question 4

What, if any, are your views on how performance against the fabric efficiency rating should be measured?

We support the proposal to measure performance using SAP methodology. This aligns with our current approach.

Question 5

What are your views, if any, on the proposal for a minimum fabric efficiency standard?

We support the proposal for a minimum fabric efficiency standard as this provides clear guidance for landlords. However, we suggest that there must be suitable and clear exemptions where such measures are not technically feasible or cost effective.

The development of the LHEES indicated that a fabric first approach could have an immediate impact on reducing carbon emissions. However, hard to treat, rural, islands, mixed tenure mixed use and historic properties would need to be considered on a case-by-case basis.

Question 6

What, if any, are your views on whether homes should not be relet if they cannot meet a minimum fabric efficiency standard?

We agree that homes should be of a suitable standard prior to letting. However, we have significant concerns regarding the impact of this proposal on void turn-over times, with a resultant impact on the timescales for allocation of homes, overall availability of housing stock to meet housing need, and the impact on rental income within the Housing Revenue Account 30 Year Business Plan. These impacts need to be carefully considered and understood to avoid likely unintended consequences and further pressure on housing need and Business Plan affordability.

Question 7

What, if any, are your views on whether ventilation and monitoring strategies should be required where MVHR is not installed?

At this time, we would not support a national strategy regarding ventilation and monitoring as part of the SHNZS.

Where fabric improvements may require additional ventilation/monitoring, this should be considered as part of the design. We therefore suggest that the requirements for MVHR should be assessed on a case-by-case basis, including air quality, rather than as a blanket requirement.

Question 8

To what extent do you support the requirement to install a clean heating system by 2045)?

- Strongly support
- Somewhat support

- Neither support nor oppose
- Somewhat oppose
- Strongly oppose
- Don't Know

Please include any additional comments below.

We are supportive of the move towards clean heating if it is supported by a sustainable funding model. The cost of this work would significantly impact upon rent levels and the affordability of the HRA 30 Year Business Plans going forward.

We currently have in the region of 12,800 gas heating systems installed across our housing stock. The costs associated with replacing these with clean heating systems, together with the associated fabric improvements to make the systems viable, is considerable.

Initial estimates for replacing our gas systems with air-source heat pumps suggest costs in the region of £370m across the life of our latest 30 Year Business Plan. This would have a considerable impact on affordability of rent levels in the future, and is exclusive of fabric improvement investments which would be required to comply with the SHNZS.

The transition to clean heating systems (presumed likely to be principally air-sourced heat pumps as the most practical option) will have several implications:

- Increased capital costs (circa £5k more per home than a gas system).
- Increased maintenance and lifecycle costs
- Risk of increased running costs for tenants, alongside increased risk of fuel poverty
- Adding potentially complex ventilation systems, alongside associated running and lifecycle costs
- Internal space implications through buffer tanks and increased radiator sizes
- External space implications for siting ASHP units
- As a result of space implications, not all existing properties will be suitable for conversion.
- Additional communication with tenants about how the systems work and “buy-in” to changes in energy usage.
- Skills and capacity within our direct labour and wider supply chain in relation to maintenance and reactive and cyclical maintenance
- Disruption to tenants and residents during the delivery phase of adaptation programmes

Mixed tenure properties will also pose challenges, and the interface between the SHNZS proposals for those other tenures within the current Heat in Buildings Bill which has been published for consultation also needs to be considered.

The move to electric heating will place significant strain on current grid capacity. We consider that an assessment of the grid implications nationally is required, with clarity on the nature, cost and timescales for any grid improvements then being linked to the targets and timescales for clean heating within the new SHNZS.

Question 9

Of the options presented for the interim targets, which one do you support for the SHNZS?

We support the phasing-in of milestone measures and interim targets. As we have relatively few properties 'off-gas', option one is therefore a more relevant model.

We need to consider carefully the cost of phased implementation on rent levels and the HRA business plan. This cannot be done until the analysis of the implications on our housing stock is completed. We consider that a lead-in time will therefore be required for local authorities and Registered Social Landlords, following confirmation of the new SHNZS, to model different fabric and clean heating system scenarios, understand and plan for the investment required, re-design current capital investment and lifecycle maintenance programmes, and engage with tenants in relation to proposed changes and ensure readiness for the new heating systems.

Question 10

What are your views on whether neighbouring landlords could work together to reach such a target on a regional basis?

The Council has previously worked with Social Registered Landlords through funds such as Heat & Energy Efficiency Scotland, Area Based Scheme and the Capital Acceleration Programme and continues to support collaborative ventures where possible.

The Council support the ambition to connect to heat networks where practical, affordable and suitable arrangements for installation, usage and on-going maintenance costs are in-place and provide best value.

Question 11

Are there any additional options for interim targets that you think should be included? If yes, please describe these here:

No; we have not identified any additional options for interim targets beyond those outlined.

Question 12

To what extent do you support the requirement for mandatory connections to heat networks under certain circumstances?

- Strongly support
- Somewhat support
- Neither support nor oppose
- Somewhat oppose

Strongly oppose

Don't Know

Please include any additional comments below.

We support the principle of heat networks and recognise these will support national and local net zero targets and allows local authorities to fulfil their duties under the Heat Network (Scotland) Act 2021. However, we do not believe the introduction of mandatory connection to heat networks is applicable in an individual retrofit situation. Heat network connection may be most suitable where new build properties are under consideration or for larger scale refurbishment or regeneration projects.

Business cases for heat networks, in our experience, are highly sensitive to a number of factors, including type of fuel, number of buildings and associated heat load, nature of project (new build or refurbishment) and utility costs. This means that the projects must be considered on a case-by-case basis to ensure they are viable, that running costs for those connecting will be affordable, and that connection costs to the network are reasonable.

We believe that heat networks have a future role to play in the decarbonisation of heat in Scotland, but mandatory connections are unlikely to be an effective means of facilitation.

Question 13

To what extent do you support the need for landlords to have an element of discretion to ensure measures are cost effective and in the best interest of tenants?

- Strongly support
- Somewhat support
- Neither support nor oppose
- Somewhat oppose
- Strongly oppose
- Don't Know

Please include any additional comments below.

We strongly support the need for discretion within the SHNZS. We suggest any discretionary list must be clearly defined, with a set process for application.

The list of measures needs to be practical and clear with appropriate guidance. Measures must be practical, cost effective, reduce fuel poverty and support national and local net zero targets. Consultation with relevant stakeholders will be important before any measures or timescales are introduced.

Question 14

What, if any, are your views on whether targets should be varied by guidance from the Scottish Government in specific circumstances?

We note that varied targets could increase the risk of confusion and non-compliance. We would be able to comment further on this question if specific examples where targets would be varied are provided.

Question 15

To what extent do you agree that the new SHNZS should apply to mixed tenure properties?

- Strongly support
- Somewhat support
- Neither support nor oppose
- Somewhat oppose
- Strongly oppose
- Don't Know

Please include any additional comments below.

We suggest that, without concomitant funding, it would be unachievable to impose the SHNZS on private owners. If a single standard is to be adopted, lack of funding to private owners will be a risk.

The Council's LHEES confirmed, through consultation with stakeholders, that landlords and private owners in mixed tenure buildings have experienced difficulty in upgrading their properties due to a failure to come to an agreement with other owners.

The LHEES also identified that implementing insulation measures in mixed tenure properties is likely to be more challenging and would require further engagement, with the following feedback from stakeholders:

- installing any energy efficiency measures can be expensive and it can take a long time to recover the outlay, if at all
- concerns regarding hard-to treat properties, the availability of skilled contractors to undertake the work as well as having clarity on which measures contribute to an improvement on EPC rating
- reporting on mixed tenure blocks and a requirement to evidence that connected owner or landlord properties have been engaged (i.e. support offered through Home Energy Scotland grants and loans or Area Based Schemes to owners/landlords)

Question 16

Do you agree that for some blocks where the local authority or RSL is not a sole or majority owner, then a phased approach to retrofit work should be undertaken?

- Strongly support
- Somewhat support
- Neither support nor oppose
- Somewhat oppose
- Strongly oppose
- Don't Know

Please include any additional comments below.

This will only be achievable if additional funding sources are made available to support private owners' involvement within retrofit works, for the reasons noted in our responses above.

Question 17

To what extent do you agree that the new SHNZS should apply to Gypsy/traveller sites?

- Strongly support
- Somewhat support
- Neither support nor oppose

- Somewhat oppose
- Strongly oppose
- Don't Know

Please include any additional comments below.

These units are not within the scope of the current legislation and as such are not reported as a dwelling. We therefore do not agree that the SHNZS should be applied as these are not categorised as dwellings.

Question 18

What are your views on the timetable for introducing the new SHNZS?

Significant risks to the timescales include:

- Resolving affordability issues and establishing a sustainable funding model for local authorities and RSLs to meet the SHNZS
- We need to consider carefully the cost of phased implementation on rent levels and the HRA business plan. This cannot be done until the analysis of the implications on our housing stock is completed. We consider that a lead-in time will therefore be required for local authorities and Registered Social Landlords, following confirmation of the new SHNZS, to model different fabric and clean heating system scenarios, understand and plan for the investment required, re-design current capital investment and lifecycle maintenance programmes, and engage with tenants in relation to proposed changes and ensure readiness for the new heating systems.
- Any further delay beyond 2025 should be reflected in the target dates provided to ensure timescales are not shortened and become unachievable.
- The ability of the national electricity grid to cope with the increased load arising from the projected switch from gas to electrically based heating systems