

**30 May 2017**

**ENERGY STRATEGY - SCOTLAND'S ENERGY EFFICIENCY PROGRAMME (SEEP) - NATIONAL INFRASTRUCTURE PRIORITY FOR ENERGY EFFICIENCY COMMENTS BY THE SCOTTISH PROPERTY FEDERATION**

**Introduction**

The Scottish Property Federation (SPF) is a voice for the property industry in Scotland. We include among our members: property investors including major institutional funds, developers, landlords of commercial and residential property, and professional property consultants and advisers. We are happy for our comments to be published and shared within the public sector.

**Key Issues**

- Investment in energy efficiency particularly in the commercial sector does not necessarily add value or assist in the letting process where the chief concern of tenant is location, fit-out and footfall.
- There should be consistency in the methodology of measuring energy efficiency used between England & Wales and Scotland. If the assessment of efficiency is more onerous in Scotland than the rest of the UK this could potentially make Scottish commercial property investments less attractive to investors.
- The landlord-tenant relationship is complex and the landlord may have little control over the actual consumer of energy, the tenant.
- The ultimate responsibility for improving the energy performance of the building sits with the property owner. However, landlords and tenants need to agree to implement it for their property / building unit and this may not be straightforward as some tenants may be reluctant to engage even if their landlord is willing.

**Response to Consultation**

The SPF will continue to engage collaboratively with the Scottish Government and other stakeholders on the proposed work programmes and the development of more detailed proposals for the Strategy. The SPF's initial views on the specific questions in the consultation are contained in the attached Annex. These views will evolve as the work programmes move forward and further evidence and input is gathered:

Contact: Mandy Catterall  
Government Relations Manager  
Scottish Property Federation  
Tel. 0131 220 6304  
Email: [mcatterall@bpf.org.uk](mailto:mcatterall@bpf.org.uk)

**SEEP - NATIONAL INFRASTRUCTURE PRIORITY FOR ENERGY EFFICIENCY: COMMENTS BY THE SCOTTISH PROPERTY FEDERATION**

**WHAT WORKS AND CURRENT ISSUES**

Thinking about current Government schemes and the delivery landscape, we would welcome stakeholders' views on:

- **what currently works well, including aspects of existing schemes that should be retained?**
- **what are the main delivery challenges faced at present and how might these be overcome?**

**SPF Comments**

We agree that there are a number of cost effective ways to achieve significant savings in money and energy in many non-domestic buildings. The catalyst needed to achieve these savings is for individuals and businesses to change their behaviour and to prioritise practical changes to the use and consumption of energy within their building. This is often easier said than done and unfortunately there are often significant barriers to such action, particularly in the tenanted commercial stock. Chief among these is the difficulty of measuring whole building energy use due to the split responsibilities and incentives in energy purchasing and use between landlord and tenant. Without the means to effectively measure actual energy impacts, often these cost-effective improvements are not in plain sight to those empowered to make the necessary steps to capitalise upon them.

Investment in energy efficiency particularly in the commercial sector does not add value or assist in the letting process where the chief concern of tenant is location, fit-out and footfall. The landlord-tenant relationship is complex and the landlord may have little control over the actual consumer of energy, the tenant.

The CRC may provide some benefit in terms of incentives for enhanced energy efficiency but it remains the case that the named bill-payer (who may be the landlord) may have little control over the actual consumer of energy, the tenant. The landlord-tenant relationship does not appear to have received major consideration in policy-making circles until the work done on the passing of the Private Housing (Tenancies) (Scotland) Act 2016 yet it continues to have a major practical bearing on the successful introduction of behavioural incentives to reduce energy use and enhance energy efficiency measures within buildings.

We have supported the central lodgement of non-domestic EPC data and we continue to do so. We also support the related powers on access to the EPC data. There is also a question over what happens to the lodged documents in the event of a change to nature or parameters of the building or unit in question.

**2050 VISION – SCOTLAND’S BUILDINGS ARE NEAR ZERO CARBON BY 2050 AND THIS IS ACHIEVED IN A WAY THAT IS SOCIALLY AND ECONOMICALLY SUSTAINABLE.**

**How can Scotland best meet this vision and underpinning objectives in a way that is both socially and economically sustainable and supports long-term inclusive growth?**

**SPF Comments**

A key issue in the commercial sector is the continuing shortening of lease lengths and the fact that the Green Deal was linked to the occupier rather than the owner. Members report a 7 to 8-year market letting cycle which is getting even shorter with new tenants demanding less than 5 years. These quicker turnarounds are further frustrating the issue as new tenants in existing buildings generally want their own branded fit out with everything stripped out when premises are re-let, which is a problem in relation to retrofit.

Our members have also indicated concern that there should be consistency in the methodology used between England & Wales and Scotland. We recognise that there is now a read through of the differences in EPCs appended to Scottish EPCs. However, it remains our view that if the assessment of efficiency is more onerous in Scotland than the rest of the UK this could potentially make Scottish commercial property investments less attractive to investors.

**We would welcome stakeholders’ views on how to set appropriate milestones for energy efficiency improvement and heat decarbonisation of buildings to ensure that the level of emissions reduction ambition (i.e. near-zero carbon buildings) is achieved.**

**SPF Comments**

A key issue is a clear trajectory and timeline of what will be expected and when. This has been a continuing concern of our members. For example, it may be cheaper to undertake several improvements at a specific date in time. The s63 Climate Change Scotland Act (CCSA) Regulations have just been implemented but there is the prospect of further regulation and obligations from 2020.

**THE ROLE OF REGULATION, STANDARDS AND FINANCIAL INCENTIVES**

**How might regulation and standards be used most effectively across the different sectors and when should they be applied across the lifetime of the programme?**

**SPF Comments**

As stated above there should be consistency in the methodology used between England & Wales and Scotland. We recognise that there is now a read through of the differences in EPCs appended to Scottish EPCs. However, it remains our view that if the assessment of efficiency is more onerous in Scotland than the rest of the UK this could potentially make Scottish commercial property investments less attractive to investors.

Members welcomed the proposal to consolidate the Energy Performance of Buildings (Scotland) Regulations and the S63 CCSA which formed part of the consultation on the s63 Regulations. However, the proposal was not taken forward. Our members think that this was a missed opportunity to make it much easier for property owners, vendors and purchasers, as well as their professional advisers, to understand their responsibilities, obligations and liabilities regarding the energy performance of their properties. This includes making the connection between trigger event (sale or lease) and the EPC recommendations that will form the action plan for carbon and energy performance.

Regulations may trigger a substantial impairment to Scottish non-domestic property values, including a significant impact for public sector assets which tend to be larger properties there is little evidence thus far of energy efficiency improvements achieving improvements in value. There is real concern that values might be reduced as purchasers (and potential tenants) require improvements or price adjustments to be made to meet legal and commercial obligations.

A balance needs to be struck between sustainable economic growth and carbon commitment targets. SPF members remain concerned at the impact – and the nature of possibly contradictory legislation and policy. For example, a retail complex will produce an EPC certificate but a requirement to install electrical charging points for cars has the potential to more than double the output as stated in the EPC certificate. There is also the continuing issue of the impact on listed buildings.

**What should be the trigger points for buildings to meet standards? Should this differ between domestic and non-domestic buildings, and if so, how?**

#### **SPF Comments**

Our members agree with the current trigger points i.e. point of sale or lease with the exemption of lease renewals.

**What do you think are the benefits of using financial and fiscal incentives to support energy efficiency in domestic and non-domestic buildings? Please give examples, from Scotland or elsewhere, of where incentives have been used in this way to good effect.**

#### **SPF Comments**

In the UK, large scale district heating is a relatively untried and untested technology, and while it is used in some European countries, these systems operate in very different geographic, economic and political setups.

The SPF notes that while there have been successful schemes in Scotland and elsewhere in the UK, these have tended to be for buildings owned, developed or maintained by a single entity - for example, hospitals, university campuses and large scale build-to-rent. To create wider zone-based district heating systems would entail more risk to property owners and their tenants and require fundamental changes in behaviour. Our members would prefer to see a regulatory system that is

more flexible and less focused on compulsion and zoning. If the Scottish Government wishes to encourage district heating we believe that supporting installations in new individual developments with financial or tax incentives would be a better place to start.

**What is the best approach to assessing energy efficiency and heat decarbonisation improvements to buildings? How could existing approaches best be used or improved and at what level and scale (e.g. unit, building or area) should assessment be carried out?**

#### **SPF Comments**

Our members welcome the operational ratings approach through the use a monitoring of Display Energy Certificates, which has long been campaigned for by the SPF and colleagues south of the border. This allows landlords to work constructively with tenants to improve energy efficiency in their properties. However, the government is clear that the ultimate responsibility for improving the energy performance of the building will remain with the property owner. This approach requires both landlords and tenants to agree to implement it for their property / building unit and is not always straightforward as some tenants may be reluctant to engage with operational ratings even if their landlord is willing.

There should be consistency in the methodology used between England & Wales and Scotland. We recognise that there is now a read through of the differences in EPCs appended to Scottish EPCs. However, it remains our view that if the assessment of efficiency is more onerous in Scotland than the rest of the UK this could potentially make Scottish commercial property investments less attractive to investors.

#### **THE APPROPRIATE LEVELS AND SOURCES OF FUNDING**

**How should the installation of energy efficiency improvements and lower carbon heat supply through SEEP be funded? In particular, where should the balance lie between grant funding and loans for homeowners, landlords and businesses?**

#### **SPF Comments**

Investment in energy efficiency particularly in the commercial sector does not add value or assist in the letting process where the chief concern of tenant is location, fit-out and footfall. In general, our members have strong concerns that there is little evidence thus far of energy efficiency improvements achieving improvements in value, but with the introduction of further regulation there is real concerns that values might be reduced as purchasers (and potential tenants) require improvements or price adjustments to be made to meet legal and commercial obligations. Similarly, there are real questions remaining over the savings to be made in energy consumption and carbon emissions as result of improvements. Any investment payback that is 5 years or more is difficult to justify in the current fiscal environment.

**What is needed to encourage private investment in energy efficiency and heat decarbonisation, including the take-up of loans by a wider range of owners and occupiers?**

**SPF Comments**

The SEEP Pilot Projects to date are coordinated and developed around local authority projects aligning with shovel ready projects in the private sector with a 6-week window and as a result it is very difficult to co-ordinate planning and budgets. It would be helpful if funding could be made to large new build projects that could incorporate local authority and smaller private sector retrofit projects.

**Of the current sources of finance which are currently available for energy efficiency and lower carbon heat supply, which are working well and which are not? Are there successful examples of attracting private sector finance to support energy efficiency improvements that could be explored? Are there any others which should be developed or made available?**

**SPF Comments**

No comment

**THE PROVISION OF ADVICE, INFORMATION AND CONSUMER PROTECTION**

**Advice and information**

**How do we ensure that householders and owners are well advised and supported in making decisions on how to improve the energy efficiency of their building and install lower carbon heat supply through SEEP?**

**SPF Comments**

This requires a trusted source of advice offering sound, reliable and endorsed products. The correct skill set is also required.

**Are the current mechanisms for providing advice sufficient? What changes, if any, do you think are required?**

**SPF Comments**

Please see above.

**What are the opportunities to link SEEP delivery with other initiatives, including the UK Government's smart meter rollout, so that we maximise the benefits for the people of Scotland?**

**SPF Comments**

No comment

**Consumer protection**

**How can SEEP be designed and promoted to build consumer confidence (as a trusted 'brand')?  
What are the risks and opportunities associated with particular approaches?**

**SPF Comments**

As stated above a trusted source of advice offering sound, reliable and endorsed products. The correct skill set is also required

**Is there a tried and trusted form of consumer redress that should be adopted or, if not, what should such a mechanism look like?**

**SPF Comments**

No comment

**How should SEEP look to integrate the findings of the Each Home Counts Review – e.g. could it be used a basis for developing a consumer protection framework for SEEP?**

**SPF Comments**

No comment

**THE ESTABLISHMENT AND SUSTAINABILITY OF LOCAL SUPPLY CHAINS AND TRUSTED DELIVERY AGENTS**

**How can local supply chains be expanded and up-skilled to ensure that maximum economic benefit and job creation is secured across all of Scotland?**

**SPF Comments**

No comment

**How can communities best benefit from the expected job creation?**

**SPF Comments**

No comment

**What provision could be made at a national level to ensure companies increase the capacity of the supply chain across all of Scotland to support local delivery of SEEP, particularly in the rural and remote areas?**

**SPF Comments**

No Comment

**What do companies need to do to increase their skills base to deliver a programme of this nature?**

**SPF Comments**

No comment

**THE NATURE OF PROGRAMME DELIVERY**

**What roles should national and local bodies play respectively in delivering SEEP and how can national and local schemes best be designed to work together towards meeting the Programme's objectives?**

**SPF Comments**

The SPF welcomes the promotion and expansion of district heating in Scotland but is concerned about the scope and scale of the regulatory proposals contained in the separate consultation on Heat and Energy Efficiency Strategies, and Regulation of District Heating. In the UK, large scale district heating is a relatively untried and untested technology, and while it is used in some European countries, these systems operate in very different geographic, economic and political setups.

The SPF notes that while there have been successful schemes in Scotland and elsewhere in the UK, these have tended to be for buildings owned, developed or maintained by a single entity - for example, hospitals, university campuses and large scale build-to-rent. To create wider zone-based district heating systems would entail more risk to property owners and their tenants and require fundamental changes in behaviour. Our members would prefer to see a regulatory system that is more flexible and less focused on compulsion and zoning. If the Scottish Government wishes to encourage district heating we believe that supporting installations in new individual developments with financial or tax incentives would be a better place to start.

Our members are opposed to local authorities setting district heating zones in the LHEES. These zones have the potential to cause uncertainty for the property industry in the areas where they are effective. The SPF would also like to see much greater detail about how the LHEES would work on a more practical scale. In addition, the SPF is concerned that local authorities do not have the resources available to them to implement the wide ranging regulatory proposals in the consultation. Local authorities already have many demands placed on them via their planning and building standards functions and there is little contained in the consultation to show how that capacity will be developed in order to conduct LHEES.



Our members are firmly of the view that developers of new buildings and owners of existing buildings should not be disadvantaged by any new policies that favour district heating over other energy efficiency measures. To expand district heating in Scotland, large scale infrastructure adaptations may be required for existing buildings as well as the provision of new infrastructure. Such modifications could entail significant costs and risks for the property industry and the Scottish Government needs to provide more details about how these would be mitigated.

The SPF is keen to see that policies relating to district heating afford businesses and property owners the flexibility to manage the risks associated with district heating. We think that the current proposals set out in the separate consultation on the Regulation of District Heating go too far in removing choice and places too many demands. Adopting a more flexible policy regime would help to ensure that Scotland remains competitive and an attractive place to invest, while also seeing greater interest in investing in district heating systems.

**What are your views on the relative benefits of area-based schemes as against those targeted at particular sectors or tenures in delivering SEEP?**

**SPF Comments**

The SEEP Pilot Projects to date are coordinated and developed around local authority projects aligning with shovel ready projects in the private sector with a 6-week window and as a result it is very difficult to co-ordinate planning and budgets. It would be helpful if funding could be made to large new build projects that could incorporate local authority and smaller private sector retrofit projects.

**What other targeting approaches might be effective?**

**SPF Comments**

To answer this question fully, the SPF would be keen to engage further with the Scottish Government to give our members a better understanding of what the district heating plans could mean for them. Our members would also like to see much greater detail about how the LHEES would work on a more practical scale.

**How best can we align nationally set standards with local, area-based delivery?**

**SPF Comments**

The SPF disagrees with the potential policy of zoning areas for district heating connection. Such a broad-brush approach could have major implications for the functioning of the property market within the zoned areas. For example, there is a significant risk that investment and improvements to properties in zoned areas will be reduced while property owners, developers and investors wait to find out how the zoning will impact them and their projects. This could have a negative effect on the local economy and increase costs for investors and developers. There may also be issues related to the selling of property within the zoned areas as possible costs associated with adapting to district heating would need to be factored into the value of conventionally heated properties.

Our members are strongly of the opinion that creating a positive investment proposition to a district heating developer should not outweigh any reservations or concerns about connection to district heating that a property owner may have. We would encourage the Scottish Government to adopt a more balanced approach that allows property owners flexibility and choice. Our members support the idea that it should be left to individual property owners to make an informed decision about what is best for them and their property. Therefore, an attractive proposition should be the driver behind the Scottish Government's ambitions for district heating, not orders that compel properties to connect to systems. Our members have suggested that incentives could include tax or financial benefits for those that join a scheme, to ensure that they will be supported throughout the lifetime of their district heating connection.

### **THE BALANCE BETWEEN LOCAL AND NATIONAL RESPONSIBILITIES**

**What should the overall balance be between national and local target setting? Should local authorities set local targets with the flexibility to determine whatever methods they want to meet the Programme vision? Or should there be a greater degree of setting the target(s) and delivery methods by national government?**

#### **SPF Comments**

Our members would have strong concerns about local authorities setting local targets with the flexibility to determine whatever methods they want to meet the Programme. They are firmly of the view that this should be done by national government. The planning system for example has a major role to play in assuring investors that Scotland is open for business and competitive. We cannot afford any perception that the planning system in Scotland is more difficult to engage and work with.

Our members are also concerned that the inclusion of LHEES into the Scottish planning system for example would further complicate the planning process and lead to more delays to decisions. The Scottish planning system is already under considerable strain and decision times for major applications are considered by many in the industry to be excessive. It would, therefore, not be desirable to have another statutory consideration before planning consent is given.

As already stated our members are opposed to local authorities setting district heating zones in the LHEES. These zones have the potential to cause uncertainty for the property industry in the areas where they are effective.

Our members are firmly of the view that developers of new buildings and owners of existing buildings should not be disadvantaged by any new policies that favour district heating over other energy efficiency measures. To expand district heating in Scotland, large scale infrastructure adaptations may be required for existing buildings as well as the provision of new infrastructure. Such modifications could entail significant costs and risks for the property industry and the Scottish Government needs to provide more details about how these will be mitigated.

**What would a good governance structure to oversee any framework of responsibilities between national and local government look like? What examples are you aware of within the UK or elsewhere?**

**SPF Comments**

No comment.

**MONITORING AND REVIEW**

**What should be included in a monitoring framework to ensure that the Programme is effectively monitored and evaluated?**

**SPF Comments**

No comment

**General Comments Not Covered Above**

**We would welcome feedback and expertise on any other issues in relation to SEEP that aren't covered by the questions above.**

**SPF Comments**

Our members are concerned that the Scottish Energy Strategy is based on current energy consumption. The Scottish Government has set challenging housing deliver targets, which will create additional demand. This does not appear to feature in the strategy.