

18 April 2017

## **CONSULTATION ON HEAT AND ENERGY EFFICIENCY STRATEGIES, AND REGULATION OF DISTRICT HEATING**

### **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.

The SPF welcomes the Scottish Government's consultation on heat and energy efficiency strategies and regulation of district heating. We have not addressed all of the questions in this consultation but have set out the SPF's response to the most relevant questions for our members.

### **Key Questions**

***Q1 - Do you agree that local authorities should have a duty to produce and implement a Local Heat & Energy Efficiency Strategy (LHEES) as outlined above? Please explain your view.***

The proposed scope of the LHEES is too broad and as such we **do not** agree with the outlined requirements. In particular, 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 (see Q6 for more details). 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.

***Q5 - What are the key principles or approaches that should inform how our regulatory approach manages risk for district heating across the whole?***

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. In order 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.

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 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.

In addition, by centralising the production of heat energy and removing conventional methods of in-building heating there is a significant risk that resilience will be lost should the centralised systems fail. This impact

would be on a far greater scale than if conventional heating systems were to breakdown. It is vital that these risks are fully assessed when choosing an approach to the regulation of district heating.

***Q6 - What are your views on local authorities having the power through LHEES to zone areas for district heating? Please provide any relevant evidence.***

The SPF disagrees with the 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.

The SPF would welcome more details about the potential length of time that property owners may have to wait in anticipation of a connection to a district heating system - as this would affect decisions on upgrading existing heating systems in the short to medium term.

***Q17 - Do you agree that compelling existing buildings to connect to district heating would mitigate heat demand risk, lower financing costs and help create an attractive investment proposition for district heating developers and financial institutions?***

The SPF is strongly opposed to the suggestion that existing buildings should be compelled to connect to a district heating scheme. This policy would come at substantial cost and risk to property owners and create uncertainty in the property market. For example, the SPF understands that many existing buildings could be required to conduct modifications to their properties in order to be suitable for a district heating connection.

Further, we 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.

***Q18 - What are your views on the relationship between LHEES and local development plans and how planning policy and development management should support the anticipated role of LHEES for new buildings?***

Our members are concerned that the inclusion of LHEES into the Scottish planning system 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.

The planning system has a major role to play in assuring investors that Scotland is open for business and competitive. We can ill-afford any perception that the planning system in Scotland is more difficult to engage and work with.

***Q39 - Please set out any further views on issues covered in this consultation that you have not already expressed, providing evidence to support your views.***

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 consultation. 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. In contrast to many of the proposals outlined in this consultation, 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.

We encourage the Scottish Government to engage further with our members to give them a better understanding of what the district heating plans could mean for them.

**Next steps**

We are happy for our comments to be published and shared within the public sector, and would be pleased to discuss our views further with the Scottish Government at a mutually convenient time.

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