



SCOTLAND'S ENERGY EFFICIENCY PROGRAMME: SECOND CONSULTATION ON LOCAL HEAT & ENERGY EFFICIENCY STRATEGIES, AND REGULATION OF DISTRICT AND COMMUNAL HEATING.

SCOTTISH PROPERTY FEDERATION CONSULTATION RESPONSE

Introduction

1. 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.
2. The SPF welcomes the Scottish Government's efforts to increase energy efficiency and decarbonise the heat energy in Scotland. We also welcome the opportunity to respond to this consultation on Local Heat & Energy Efficiency Strategies, and Regulation of District and Communal Heating. The SPF is not in a position to comment on some of the technical issues contained within this consultation, however, we are keen to give the Scottish Government a commentary on some of the issues contained within this document from the Scottish property industry's perspective.

SPF Response to Consultation Questions

Q1. Do you agree with our proposed overall approach to LHEES?

Development of a LHEES

3. The SPF agrees that local authorities should be responsible for developing and implementing LHEES, albeit with adequate oversight from Scottish Ministers and a 'national delivery mechanism' (see our response to question 20). Our members found the 6 Stage process of the development of LHEES a helpful illustration of how the proposed policy will function. We have given feedback from the industry on this process below.

Stage 1: Local and National Strategies

4. The SPF agrees that an assessment of existing local and national strategies and data availability should be the first step in the development of a LHEES. We believe that this must look at a wide range of local and national strategies across different disciplines and departments of government.

Stage 2: Energy performance

5. The SPF would like to receive more information on what would be involved in the assessment of the existing building stock's energy performance. In particular, we would be interested to know if this would require any additional input from commercial property owners over and above what they must do to satisfy their existing Section 63 requirements.
6. From the limited information available given in the consultation on how this data is obtained (Section 3D of the consultation, page 23), we welcome the Scottish Government's proposals to use already available data. This will help to ensure that there will be no

additional cost or disruption to commercial property owners while local authorities conduct their energy performance assessments.

7. We are content with proposals for commercial property owners and other large energy users to voluntarily give information to help with the development of LEEHS. However, we do not believe that local authorities should be able to compel businesses to give any further detailed reports, as these organisations already incur costs meeting existing regulatory conditions.
8. Residential properties only need to register their EPC Rating in certain circumstances, thus it may be more difficult to assess for energy performance in this sector. The SPF would like to see more detail on how local authorities will assess existing residential properties in a way that is both accurate and practical.

Stage 3: Targets

9. Without much more detail on what authority-wide targets for energy efficiency, we cannot comment fully. However, it is important that targets are achievable and realistic steps to achieve the final targeted reduction are in place.

Stage 4: Socioeconomic Evaluation

10. We welcome that the proposals detailed in the consultation include a socioeconomic evaluation. However, we believe that the outline for the evaluation as set out in section 3C (page 21) of the consultation document is too narrow and would benefit from a more holistic study of the effects of proposed LHEES.
11. Our members are of the view that the evaluation of the socio-economic consequences of energy efficiency solutions and the decarbonisation of heating (Stage 4) should be broadened to include the potential effects of LHEES on investment into new commercial buildings and future housing supply within the zoned area. These two factors are key national priorities because of their importance to economic growth, growing Scotland's housing supply and delivering the wider social benefits that follow from investment into real estate.
12. The SPF believes that a BRIA style evaluation should be produced by local authorities covering the potential effects on commercial property investment and on future new housing supply of the proposed LHEES. This evaluation should be transparent and open to consultation with stakeholders. This step may add extra time to the overall process of adopting a LHEES but is vital to avoid competing policies between the Scottish Government's housing and climate change agendas, which could lead to unintended negative consequences.
13. As a further consideration, the socioeconomic evaluation must not give undue weight to the circumstances of district heating developers, at the cost of concerns from other stakeholders.

Stage 5&6: Zoning, Costing and Phasing

14. The SPF is of the opinion that these steps need to be conducted in close consultation with key stakeholders such as the property industry. It will be vital that interested parties are kept up to date with developments, particularly if they operate in a proposed 'zoned' area. It would also be useful to have more details about how long a LHEES would take to develop from Stage 1 to Stage 6.

Local Authority Resourcing

15. The SPF remains 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. While the most recent consultation does include a proposal to assist local authorities in their preparation of LHEES, there needs to be far more detail if our members are to have confidence in proposals.
16. The SPF welcomes the introduction of the 11 pilot LHEES as this will help to pinpoint areas that could potentially cause issues for local authorities and where extra resourcing would be required. They would also be a useful case study for assessing impacts on businesses, although it may take several years before any effect on investment into commercial and residential property could be studied.
17. We trust that there will be adequate time available to analyse the findings from these pilots, before statutory duties on local authorities to produce LHEES are rolled out nationally. It is important that there is consultation with a range of stakeholders, including the Scottish property industry, as part of this process.

LHEES and the Scottish Planning System

18. While our members do not wish to see conflicting policies, they are concerned that the inclusion of LHEES into the Scottish planning system could further complicate the planning consent 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 - and in the wider populous - to be excessive. It would, therefore, not be desirable to add another level of complexity to the process. 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 difficult to engage and work with.
19. It is important to learn from experience elsewhere in the UK. For example, we are aware of a development where connection to a district heating system was a stipulation for obtaining planning consent. To connect to the system, the pipe would have to travel under a Grade 2 listed cobble street. However, the local authority prevented installation of the pipe under the street, meaning that the building could not be connected - leading to an impasse that

delayed the development, which had financial implications for the developer. Such examples are not unusual, and it is important that Scotland avoids creating a system where there competing policies cause similar problems.

20. It is often the case that a poorly designed or planned district heating system will be more costly and inefficient than conventional alternatives. Therefore, the approach to developing district heating schemes in LHEES must avoid simply becoming a 'tick box exercise' and involve proper qualitative and quantitative research into their viability. This may involve local authorities requiring additional resources and expertise; the SPF would be grateful if subsequent proposals outlined what additional support will be available.

Further Technical Considerations

DNOs

21. The LHEES proposals do not appear to include consultation with the Distribution Network Operators (Scottish Power, SSE etc.) on the acceptability of the local electricity networks to support imbedded generators such as CHP. Our members have found, with increasing frequency, that DNOs are rejecting applications for such technologies due infrastructure issues, which could have significant impacts on the feasibility of district heating.
22. The DNO Distribution Generator heat maps confirm that large areas of Scotland (including Glasgow, Edinburgh, Dundee and Stirling) have restrictions on electrical generators that exceed 50kW. Our members are of the view that for district heating to be viable both financially and economically, the ability to connect CHP is critical. The LHEES and future district heating regulations should consider the above technical and financial challenges to allow a viable roll out of heat networks in Scotland.

Building Standards

23. The SPF would also suggest that consultation with Building Standards is undertaken in the development of LHEES and district heating regulations, to ensure that there is commonality between Section 6 (Energy) & Section 7 (Sustainability) of the Scottish Technical Standards. On recent projects, there have been reports of a disconnect between planning policy and building regulations on district heating issues such as the ability to use gas CHP.

Gas and District Heating

24. In addition to the above, we understand that Scottish Government is aiming for de-carbonisation of the gas network and is conscious that the acceleration of district heating networks could result in a dash for gas. Although we understand this concern, natural gas fired plant (e.g. boilers & CHP) should be allowable technologies within the LHEES to allow district heating to establish a foothold.

Q3. Do you agree with our proposed overall approach to zoning?

25. We welcome proposals that zones will be indicative and would not prevent other forms of heating from being used within them. We agree that there should be not compulsory connections to district heating systems for existing buildings, and we welcome that this is no longer the Scottish Government's policy aim (See question 13 for more detail).

Q13. What are your views on the proposed approach to connecting heat users?

26. We welcome that the new proposals do not seek to compel owners of existing non-public buildings to connect to district heating. In our response to the initial consultation, we highlighted the significant risks that such a policy would entail and the possible unintended consequences.
27. We remain of the view that persuasion and education, not compulsion, should be the most important levers for promoting district heating expansion to existing buildings. With reliable information tailored to their own needs, property owners will be best placed to make an informed decision on the potential benefits and risks to connection.
28. On this point, it is also important that the Scottish Government realises that consumer education will be vital if district heating is to be accepted by communities. District Heating represents a very big change from the current system, which is based on individual responsibility for heating (normally via a boiler), and it is important that consumers are aware of the significant differences that such changes entail.
29. With regard to new buildings, we echo our previous comments that district heating should not be used to impede development or put project viability in jeopardy. There should be a holistic approach taken when making decisions on how best to expand district heating in new developments, which accounts for the wide range of regulatory conditions developers must meet.
30. It can take many years for a development to go from first concept to completion and the Scottish Government should be mindful to not introduce further complications that could hinder the supply of new homes in Scotland. Initial findings from an ongoing review commissioned by the SPF and Homes for Scotland have shown that, under the current system, sites of 20 or more new houses already take at least four years from the granting of detailed planning permission to completion. It is imperative that the lengthy development process is not exacerbated by the new focus on district heating, and that local authorities are sympathetic to this risk.
31. Whilst we appreciate that district heating has a place in future heat generation in Scotland, the SPF does not feel that the Scottish Government has given enough consideration to the possibility that other forms of low carbon heating maybe more adequate for new developments. Given the current decarbonisation of the grid (including the closure of Scotland's last coal fire power station) and the ongoing leap in the energy efficiency standards of new buildings, there is a distinct possibility that district heating will not have

as big an impact as the Scottish Government intends. On top of this, there is also a certain amount of disruption required when connecting buildings to district heating systems in addition to a substantial amount of financial investment. This means that the Scottish Government and local authorities must be mindful that there could be more effective uses of time and resources in certain situations, other than to mandate connections to district heating.

Q20. What are your views on the establishment of a national delivery mechanism to support local authorities in delivering their proposed functions for LHEES and district heating, and which could support delivery and governance of SEEP more widely? What form should it take? What functions should it have?

32. The SPF is of the opinion that a national delivery mechanism would be a necessary part of any advancement of the proposal for LHEES. Local authorities are under pressure to deliver a vast range of services with ever more limited resources. As such, some local authorities may need help to implement the Scottish Government's proposals in a way that encourages investment into Scotland's real estate sector and promotes district heating choices. Therefore, a 'national delivery mechanism' agency would be vital to ensure consistency across Scotland and to support local authorities deliver their proposed new statutory duties.
33. It is also important that those at the helm of the proposed 'national delivery mechanism' engage closely with the real estate industry in Scotland, through bodies such as the SPF, to discuss any concerns. The development sector in Scotland is of great significance to the national economy; supporting tens of thousands of jobs, contributing significantly to government revenues (for example through LBTT, Section 75 contributions and Business Rates) and being fundamental to place making in Scotland. Therefore, it is important that the property industry and any agency overseeing LEEHS remain in close dialogue throughout the roll out of the programme.

Q21. Please let us know any views you have on the most cost-effective way of supporting schemes that are socio-economically appropriate and in line with the local authority LHEES.

34. We welcome the Scottish Government's inclusion of incentives in its latest consultation on furthering district heating. The expansion of district heating will involve significant behavioural change and upfront investment, both of which can be assisted with comprehensive and accessible funding available to those who chose to adopt district heating. We continue to believe that the 'carrot', as opposed to the 'stick', approach is the best way for the Scottish Government to increase district heating uptake in Scotland.
35. We have had reports from our members suggesting that existing funding programmes can sometimes be complicated to apply to, that sometimes the criteria for funding qualification is overly narrow and that some financial assistance it is not available to private organisations. Going forward it will be important that the Scottish Government puts in place a more coherent and accessible funding mechanism, if it is to expand district heating at the scale sought by the current SEEP agenda.

Q25. Please tell us about any potential costs or savings that may occur as a result of our proposed approach and any increase or reduction in the burden of regulation for any sector. Please be as specific as possible.

36. We look forward to receiving more detailed proposals from the Scottish Government in due course, which will allow costs to be more fully recognised and commented on. We will be happy to engage with the Scottish Government when it conducts its full analysis of costs and impact as part of producing the BRIA.

Additional comments

37. The SPF welcomes the promotion and expansion of district heating in Scotland but remains concerned by the scope and scale of the regulatory proposals. In the UK, large scale district heating is a relatively new technology, and while it is used in some European countries, these systems operate in very different geographic, economic and fiscal environments.
38. It is vital that any legislation embraces a holistic approach to the priorities of the Scottish Government and to Scotland's private sector which promotes jobs, economic growth and good quality places to live, learn and enjoy. We look forward to further engagement as the proposals discussed in this SEEP consultation develop further.
39. 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.