

Date Issued March 2023

Last Revised Not applicable

Department Asset Management

Title **Stock Investment Strategy**

Objective To outline the Association's strategy for investing in its property assets considering regulatory requirements and meeting targets for reduction of use of fossil fuels and future strategy with respect to new developments.

Responsible Director of Asset Management

Next Review Date March 2024

1.0 Asset Management

The Association has an existing approved and implemented Asset Management Strategy driven around the guiding principles of providing and maintaining properties for rent in the Social Housing Sector that are affordable, fit for purpose, sustainable and economically viable.

In recent years there has been an additional focus on sustainability, reduction of fuel poverty and the overall requirement for meeting targets by the phasing out of the use of fossil fuels and reducing CO2 output.

Our Long-Term Financial Projections, which we revise annually, consider our overall financial stability for the next 30 years, and have evolved to take account of the requirements of EESSH and emerging EESSH2 requirements, whilst needing to ensure sufficient funding to maintain the stock to the highest standards through the delivery of the Planned Maintenance Programme (PMP) and being able to demonstrate that all this is affordable.

2.0 Stock Investment Strategy Guiding Principles

There are competing priorities, not just in relation to existing stock investment, and we must strike a balance that is not simply driven by meeting certain standards at all costs. Preventing homelessness for example is another key driver, and one contribution we can make is in continuing to build new homes, so we must take pragmatic decisions that ensure the right balance between the energy efficiency of new homes and maximising the number we can build is struck. We have therefore set out four key principles in our approach to future stock investment.

2.1 Applying Common Sense – At All Times

This is an over-riding guiding principle for our Stock Investment Strategy. There will be exceptions and variations within our stock that mean we cannot apply a simple, equal solution. We will be guided by the needs of our tenants, overall affordability, and understanding of our homes as both community and individual assets. We will work with our tenants wherever we can to apply the right solutions in the right places and will avoid decisions where they are illogical and applied simply to meet a standard.

We will, however, do all we can to move our stock to zero emission at the earliest opportunity. Given current uncertainty around future standards and requirements, it is difficult to plan effectively at present, but we will work with both the Scottish Government, Scottish Housing Regulator and Scottish Federation of Housing Associations, and engage in the development of future strategies and standards.

2.2 Fuel First Approach

We are keen to reduce the carbon footprint of our homes as quickly as we can, and ultimately, we see future energy requirements for our homes being met by either on-site or other local generation, or by grid electricity. The goal is to see the use of gas, coal and wood for heating in our homes end. However, responding to Fuel Poverty is a priority, and we must ensure that any new heating system is at least no more expensive to run than any existing gas or solid fuel heating system.

Currently, fossil fuels, particularly gas, are much cheaper per Kwh than electricity. Market forces may equalise prices through time, but we believe a Social Heating Tariff, equalising prices for heating energy, would allow us to make much quicker progress in decarbonising our homes. This could be achieved by a mixture of subsidy for electricity, paid for in part by slowly and progressively increased taxes on natural gas.

With equal fuel prices, we would be able to replace all our gas boilers across a few years with electric combi boilers, without the need for any government funding or other grant assistance. These upgrades would result in minimal inconvenience for tenants, and if taken forward on a larger scale with the sector, this could be alongside grid improvements to provide the additional capacity required. In addition, our risks and maintenance costs associated with maintaining gas systems would reduce to zero.

We are very wary of trying to retrofit systems that our existing homes were never designed to accommodate, in particular, Air Source Heat Pumps (ASHP). We recognise the benefits of Heat Pumps when installed in homes designed to work with them and will consider them where appropriate in our new build projects. However, the high installation cost, concern around lifespan and maintenance costs of the systems, the nature and extent of the works required to retro-fit them, and above all, poor heating performance when compared to a traditional wet system, mean that they are not appropriate for the majority homes with existing gas central heating systems.

Many of our rural homes already have zero emission heating, as many are fitted with electric Quantum night storage heaters. As this form of heat storage is essentially a battery, it is possible that there is a place for this kind of system in the heating systems of the future, but with a gas equivalent heating tariff, electric combi boilers could also be considered for these homes, offering tenants the same levels of comfort and controllability of heating that tenants in urban areas generally have.

2.3 Fabric Second Approach

Investing in the thermal efficiency of our homes where there is a clear return on the investment makes sense for tenant and landlord alike. We will continue to take sensible measures, but it is becoming increasingly difficult for us to make meaningful improvements to our homes where the returns justify the level of investment required.

We do not believe that housing stock should be assessed in individual isolation. For example, two otherwise identical homes, one with solar PV and one without, would have two completely different ratings under existing energy efficiency assessments. However, if the equivalent of two homes PV panels were put in a solar farm, and each property receives half of the energy generated, then both homes would benefit from their “own” generation, and both would have the same energy rating.

We believe it is not just about the physical attributes of an individual property, but how and where the energy they use is generated, that is critical to considering their overall impact on the environment. We also recognise the crucial role housing plays in communities, and whilst, for example, a larger, older property may use more energy than a smaller, newer one, we may place a higher social value on the larger property, and therefore we may wish to tolerate higher energy use, rather than consider disposal of the property, if there are no practical ways to reduce overall energy use further.

We are therefore wary about judging the quality of our homes based on just thermal performance, and we will take a wider view around stock retention strategies, unless legislative or regulatory requirements mean we have to do otherwise.

2.4 Local Generation and Supply

We are keen, where possible, to explore the potential of localised schemes to develop energy for our tenants to use, whether that is small scale on site solar farms at new developments, or offsite wind generation that can use a future, more intelligent grid for distribution. We have the ability to fund, build and manage capital infrastructure, so ensuring our tenants have long term access to cheap, reliable energy, is part of our long-term vision.

3.0 Options Available From Clean Energy Sources

Using electricity from sustainable generation allows us to consider the use of various electrically powered systems to provide heat and hot water for existing stock to upgrade and renew systems as required, and for future schemes as they are developed. Options already in use in our stock include:

- Electric Wet Central Heating Boilers (Combi Boilers)
- Ground Source Heat Pumps
- Air Source Heat Pumps
- Storage Heating (Quantum Heaters)
- Solar Photo Voltaic Systems
- District Heating Schemes
- Battery or Heat Store Technology

Other options may become available in the future, as advances in technology and other alternatives are developed. The use of Hydrogen and Microwave technology are sure to be developed further in future years and may provide cost effective alternatives, whilst infra-red heating systems are already available in the market. We aim to find out more about these kind of systems as they develop and consider whether there are any practical uses for them within our stock.

We have installed Electric Wet, Ground Source Heat Pumps, Air Source Heat Pumps, Solar PV and Heat Store Batteries in our stock. We recognise the additional costs of Electric Wet systems, but tenants with these systems generally use Economy 10 tariffs which does reduce overall cost, but this is not a perfect solution. With a gas equivalent heating tariff, these would be the best option from the perspective of retro-fit and controllable heating for tenants.

Our Solar PV and Heat Store systems work well, and we have now installed Solar PV's in virtually all our suitable properties.

We struggle with many tenants trying to explain how to use Ground Source and Air Source Heat Pumps, despite many of these systems having been in place for many years. Many tenants use the systems efficiently and effectively, but probably as many again do not use the systems as designed and so are running them inefficiently and often relying on immersion heating for water as a result, which in turn means high energy bills.

We have replaced all electric panel heating and older type storage heating systems with more efficient Quantum Storage Heaters. These are efficient, as well as having a long lifespan and low maintenance costs, and if used with an Economy 7 tariff, keep heating costs reasonable, but nowhere near as low as a gas heating system, and with significantly less control.

4.0 Property Energy Performance Information – Existing Stock

We have 100% stock condition database that provides good information about our stock. The survey information provides information to inform our future maintenance planning.

Every property has a current Energy Performance Certificate (EPC) that identifies the rating given to each property.

Working with the Energy Savings Trust (EST), the Association has a massive amount of information on property energy performance and potential energy savings available through the EST Portfolio Energy Analysis Tool (PEAT). The PEAT tool assists with targeting the properties that most need typical energy saving measures with an estimate of how much these measures are likely to cost.

5.0 EESSH2

The Energy Efficiency Standard for Social Housing (EESH) aimed to improve the energy efficiency of social housing in Scotland by aiming to reduce energy consumption, fuel poverty and the emission of greenhouse gases.

The EESH was based on the minimum Energy Performance Certificate (EPC) rating calculated using the Standard Assessment Procedure (SAP) for energy rating of dwellings 2012 methodology.

The original EESH was introduced in March 2014 and set a first milestone for social landlords to meet for social rented homes by 31 December 2020. An EPC rating of Band D was the minimum required and the Association met this target through the investment in the stock. A second milestone (EESH2) was confirmed in June 2019, for social rented houses to meet by December 2032. The EESH2 milestone is 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
- In addition, no social housing below EPC Band D should be re-let from December 2025, subject to temporary specified exemptions

The Scottish Government decided to review the EESH2 in 2023 to strengthen and realign the standard with the target for net zero heat in houses from 2040, as set out in the Climate Change Update, the Heat in Buildings Strategy, and the Housing to 2040 Route Map. The review will look at progress towards EESH2, elements of the standard, air quality, alignment with the net zero target, and how the standard fits with changes needed across other tenures.

Clearly this will have a significant impact on our future stock investment, and we will review our approach once the required new standards become clear.