CHANGEWORKS

Stakeholder Voice Report

A just transition to low carbon heat in off-gas rural Scotland

Funded by the European Climate Foundation

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1. Introduction

The current journey to installing low carbon heating is fragmented and can be challenging for homeowners to navigate. Out with the social rented sector, the most common model for an individual owner-occupier or landlord is to contract an installer to provide and fit a new heating system. The pace and scale of this approach does not align with Scotland's climate change targets and timescales. There is a need therefore for models that support wide-scale decarbonisation in a replicable, scalable and fair manner. In a fair and just, low carbon transition, those already vulnerable and in, or at risk of, fuel poverty would not be negatively impacted by the switch in technologies, nor face an unfair burden from additional costs or lack of access due to affordability.

2. Overview of approach

Funded by the European Climate Foundation, this Changeworks project focused on a just transition to low carbon heat in rural off-gas areas in Scotland, where current rates of fuel poverty are high. The project aim was to:

Identify and advocate for targeted investment in just heat decarbonisation approaches that are replicable, scalable and have broad stakeholder and community buy in.

This report outlines the findings from a comprehensive consultation exercise across housing tenures, as well as wider stakeholders[1]. The consultation sought feedback on four delivery models which were identified from the research to roll-out low carbon heating systems at scale. These delivery models are purposefully and largely 'technology-agnostic' given the diversity and complexity of the housing stock in rural Scotland.

Following a review of existing schemes, we identified four potential models to enable a more straightforward customer journey to roll out low carbon heating systems at scale:

[1] 68 individuals and organisations were invited to participate, 31 of whom directly engaged through interviews and group discussions. Through forums such as Rural and Islands Housing Associations Forum (RIHAF) and the Scottish Parliament Cross Party Group on Renewable Energy & Energy Efficiency, we indirectly engaged with an estimated 98 stakeholders. The project was presented and feedback sought from attendees at events such as the **Sutherland Fuel Poverty Summit**, **Highland Council Climate Conference** and **FPRN Making Decarbonisation Fair Conference**.

1. **Collective purchase:** takes advantage of economies of scale and reduced upfront costs. This could be on a community scale or through a third party intermediary.

2. **Payment plan:** spreads the upfront costs of retrofit and heating upgrades over time. This could involve plans such as heat as a service, on-bill payments or salary sacrifice schemes

3. **Community asset ownership:** based on metered estates with communal LPG storage tanks and where heating systems are communally owned. This could be a solution for flats, but also operate at a whole street or neighbourhood scale.

4. **Third party ownership:** upfront capital costs are borne by third parties, allowing households to 'rent' their systems and pay for usage, while the third party owns the assets.

To download Discussion Paper click here.

The models which formed the basis of the open-forum consultation are described in more detail in the Discussion Paper along with illustrative case examples.

3. Key Findings

- Widespread acknowledgement from all stakeholder groups of the need to adopt new models to achieve necessary scale and pace of transition.
- Scale is key to attracting market actors, achieving efficiencies, and providing equitable access. The current voluntary and piecemeal approach will not deliver at scale or within the necessary timeframe for net zero targets.
- No model was ruled out by stakeholders, and there is an expectation that all models will be of value and will overlap.
- Unrestricted choice of products create inertia and confusion, rather than enabling action.
- Political leadership and clear direction from local and national government is required to ensure that delivery is consistent, fair and at scale across the country.
- Some market regulation is needed to drive the transition and set standards, alongside financial incentives to reduce the risks for consumers, communities and housing providers (particularly for the third party ownership model).
- An intermediary or third party may be required to deliver any model effectively, particularly to provide advice, procurement, and quality assurance. A one-stop-shop[2] service was suggested by many. There was appetite for this to be provided at a local scale by not-for-profit organisations, but also recognition that the scale of the transition may require large-scale commercial actors to provide one-stop-shop services.
- While the payment plan, communal ownership and third party ownership models are all viable, major legislative barriers around ownership and consumer protection exist. In addition, social acceptance of new legal arrangements may hinder the pace and scale of uptake until established and trusted.

4. A Just Transition

Stakeholders shared their priorities for ensuring that the transition to low carbon heating is just and fair. Key themes emerged around:

[2] A virtual or physical place where homeowners can access all information and services to retrofit a property, including finance, advice, heating and fabric products, co-ordination, quality assurance.

- **The price of electricity**
  Rebalancing the regressive policy costs and levies on electricity bills to ensure equal access to affordable fuel.
- **Benefits from renewable generation**
  Residents in off-gas areas are penalised through high energy costs, despite the areas often being net exporters of renewable electricity. This is a barrier to a just transition.
- **Network costs and flexible tariffs**
  Those unable to access or use flexible tariffs will be further disadvantaged by high energy prices. Demand for cheaper heating systems could also drive-up overall costs, as these may not have in-built balancing mechanisms. This would result in the need for further network upgrades, and ultimately be reflected in increased energy bills.
- **The burdens and risks of being an early adopter**
  Stakeholders referred to both the financial costs of this (for example higher costs of technology), and the risks associated with moving first.
- **Engaging with consumers**
  Including householders as active partners rather than just end users.

The aim of this research is not to 'solve' any of the above challenges, but to highlight potential options to achieve decarbonisation which incorporate considerations of justness. Additional assumptions are as follows:

- Some of these issues are systemic and will require collaboration, strategic planning and involvement of local authorities and Scottish Government.
- Individual purchases of heating systems will continue, alongside some or all of these models which support scalability.
- This work is intended to compliment a nationwide fabric-first approach which is fundamental to ensuring properties are future proofed for net-zero. This allows for the proper sizing of heating systems, reducing ongoing energy costs and pressure on the grid.
- Each model could be supplemented and supported through a grants programme and financial incentives, but we have not included these as standalone models.

5. Stakeholder Feedback

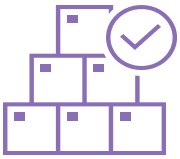
The table overleaf summarises the outputs of the stakeholder engagement, i.e., the consensus from stakeholders in each sector of housing tenure and the supply-side (including network operators and manufacturers). These findings are explored in more detail in the following sections.

The outputs are categorised by colour as shown in the key below. The majority of the boxes in the table overleaf are yellow, which indicates that there was support for this model from stakeholders, but the risks associated with it are currently too high. Whilst there was acceptance of these models from stakeholders, it was recognised they could not be implemented immediately without additional regulation or support.

Key
General acceptance/support for model by sectoral stakeholders
Support for model depending on key considerations being implemented
Low acceptance/support for model

	Collective Purchase	Payment Plan	Community Asset Ownership	Third Party Ownership
Social Rental Sector	**Appeal** • Bulk purchase already used • Potential cross-sector working **Challenges** • Limited expertise within RSLs • Capacity of rural supply chain to install at scale • Risk of poorly specified technology	**Appeal** • Private borrowing is common • Other forms of payment plans could supplement planned upgrades **Challenges** • Uncertainty around integration with current business plans	**Appeal** • Community / area-based aspects are appealing **Challenges** • Resource and time intensive to implement • Some RSLs perceived this model as irrelevant for them	**Appeal** • Appetite for this model to reduce risk and obligations on RSLs **Challenges** • Uncertainties around risk, ownership and responsibility • Structures and regulation not in place to overcome these
Private Rental Sector	**Appeal** • Perceived as self-sufficient • Upfront discount highly valued **Challenges** • Diversity of property types and low population densities • Ensuring suitable solutions	**Appeal** • Green lease concept appealing • Wariness of debt and long contracts **Challenges** • Overly complex • Anxiety around consumer protection	**Appeal** • Savings from investing collectively • Shared maintenance costs • Utilising strong sense of community **Challenges** • Agreement among various property owners. Requires mediation	**Appeal** • Removes onus for maintenance • Overall limited appeal **Challenges** • Requires a high level of trust in third party operators • Loss of control and ownership
Owner-Occupiers	**Appeal** • Appealing due to simplicity and 'collective' nature **Challenges** • Excludes those without capital • Co-operation and agreement from participants	**Appeal** • Mixed reception in part due to legacy of the Green Deal • Recognition of the need for a model which removes capex **Challenges** • Complexity	**Appeal** • A financial stake in projects builds buy-in among communities **Challenges** • Responsibility for co-ordination and management • Too onerous for retrofit projects	**Appeal** • Some scepticism • Also acceptance if the advantages for consumers are made clear **Challenges** • Overcoming legal and ownership issues (selling property)
Supply Side	**Appeal** • Interested in working with RSLs **Challenges** • Market lacking for other tenures • Specification of technology key to grid management and consumer outcomes • Regional/ national co-ordination	**Appeal** • Limited appeal, potential reputational risks **Challenges** • Complex and onerous for supply chain • This increases cost to consumers	**Appeal** • Overall low appeal • Potential integration with third-party ownership **Challenges** • Limited engagement from stakeholders • Risk of stranded assets	**Appeal** • Preferred model if developed at scale • Could improve grid management **Challenges** • Lack of economies of scale in remote / rural communities

5.1 Collective Purchase Model



Collective Purchase

- Discount from bulk purchasing
- Upfront payment
- Asset owned by property owner

The simplicity of this model was key in its appeal to stakeholders. Asking people to change their homes is an emotive subject, and stakeholders emphasised the importance of decision-making and purchasing processes.

> *"Group buying is a no-brainer. It's also a 'sellable' concept and easy for people to understand."* Holly O'Donnell, WWF

The 'collective' aspect of the model was also emphasised. The notions of a shared experience, feeling part of something bigger, local service, trust and word of mouth were mentioned frequently. It was clear from the consultation that trust is one of the biggest barriers to retrofit, and that the collective and local aspects of this model would build trust. Even without shared community asset ownership (model 3), this community buy-in is hugely important.

Scale

Stakeholders, particularly from the social rented sector and stakeholder organisations, felt the collective purchase model would work well on a very large scale (local or national government) rather than at a community scale. This was due to the risks and expertise required. Small registered social landlords (RSLs) raised concerns about their capacity to bulk purchase heating and fabric technologies, due to a lack of technical expertise and staff numbers. Several stakeholders proposed area-based collective purchase models led by large RSLs or local authorities working on behalf of a group of RSLs.

This model was favoured by stakeholders from the supply chain and grid operation. Their support hinged on whether the model could operate at scale. It was highlighted that greater economies could be achieved by procuring a full service rather than just technologies. Contractor travel and accommodation costs are significant and will impact the viability of this model if ambition and scale are insufficient.

Stakeholders associated with the social rented sector referred to the role that Local Heat and Energy Efficiency Strategies (LHEES) can play in scaling and replicating this model in a strategic way.

> *"LHEES should help with getting this to work as a mixed-tenure approach, having that strategic overview of what the best measures are for properties."* Cassandra Dove, SFHA

However, this was frequently caveated with the risks associated with purchasing and installing at scale. A small number of stakeholders questioned whether economies of scale could actually be achieved, given the geographic dispersal of properties in off-gas areas and the variety of property types.

> *"Bulk purchasing should be undertaken at Government level. They should take the risk here because they can access greater economies of scale than communities."* Donnie Mackay, Energy Advice Service, Lochalsh and Skye Housing Association

Stakeholders in the private rental and owner-occupier sectors saw value in the model being adopted at a local scale to capitalise on a sense of community and promotion via word of mouth. They also recognised that it may be challenging to get enough households involved, particularly in remote rural areas with low population densities. It was suggested that this model would be more suitable for villages due to population density and the greater likelihood of similar buildings requiring similar heating or fabric upgrades.

Timing was also a crucial aspect of this model highlighted by stakeholders in the workshop with owner-occupiers:

> *"If we want to upgrade our heating system now, but our neighbours want to wait for five years then that's a big problem."* David, owner-occupier

This suggests that regulation on minimum standard deadlines may facilitate consumers working collectively.

Supply Chain

The scale of collective purchasing is dependent on the capacity of the supply chain. Stakeholders highlighted that using this model on a large scale would provide opportunities for big commercial entities, however this could be at the expense of local supply chains. Some private sector landlords saw that this model could provide opportunities for the local supply chain as multiple properties would be installing the same technologies creating a local market for installation and maintenance. However, there were concerns that local supply chains, particularly on the islands, would not be able to install at the scale of bulk purchasing.

> *"The scale of installs would exceed the capacity of contractors on the islands. We'd then have to pay to store heating systems while we wait for the installers, which would probably wipe out any savings from bulk buying."* Robert Leslie, THAW Orkney

Risk

Stakeholders were wary that this model would be inflexible, both in terms of adapting to developments in technology, and in being able to provide bespoke solutions for the fabric and heating requirements of individual properties.

> *"This is a good solution, but will it be flexible enough for the islands? We have a very diverse housing stock here. This model may result in more generic solutions being rolled out, rather than solutions based on what each individual property needs."* David Wake, North Harris Trust

For some RSLs, the model was perceived as incompatible with the gradual approach to upgrades planned over 5-year programmes and too risky due to the length of contracts.

> *"Technologies move quickly, and local authorities are wary of getting it wrong or getting tied into long contracts for something that isn't right."* Tony Cain, Association of Local Authority Chief Housing Officers (ALACHO)

Stakeholders associated bulk purchasing with heightened risk of things going wrong. Therefore, the specification of heating and fabric solutions was highlighted as a critical aspect of this model. Poorly specified technologies could lead to poor living conditions as well as impacting upon grid management. Current Scottish Government frameworks for the social housing sector were cited as an example where specifications are not fit for purpose:

> *"The kitchens, bathrooms, and windows that are on the frameworks do not meet our standards, and so we miss out on that bulk purchasing opportunity."* Peter O'Donnell, Hebridean Housing Partnership

Support Required

Stakeholders outlined the support and regulation needed for this model to succeed. This included intermediary organisations, funding, specification and ways to de-risk investments in technologies. One stakeholder involved with a local Transition group explained that the group had been approached by a local installer to start a bulk purchase scheme. However, the group were nervous about endorsing a single supplier and required expertise and support to take this forward.

The one-stop-shop aspect of this model was emphasised by stakeholders in the owner-occupier and private rental sector. There is a clear need for an intermediary role here to provide hand-holding support to consumers and community groups throughout the process. Questions were raised around how such support is funded, and stakeholders were wary of this being delivered by the private sector.

> *"A third party would make the model appealing, especially if they had a track record in other places. Expertise, support, and a not-for-profit aspect add to the assurance. The government could fund that type of support."* Zoe, private sector landlord

Support with funding was also called for, as stakeholders recognised that the model could exclude those without access to upfront capital. Suggestions included low or interest free loans from the Government or from local sources, essentially combining this model with a payment plan.

> *"Community benefit groups could cashflow this model to help those who don't have the immediate funds, and then householders pay it back".* Ian Leaver, private sector landlord

5.2 Payment Plan Model

Stakeholders recognised the need for this model for consumers who cannot pay upfront, but highlighted it was unfair for these consumers to pay more due to the additional cost of borrowing, potentially missing out on discounts such as those available through collective purchasing (model 1). It was suggested that the models need to work in conjunction with one another:

> *"Presumably you could take part in a bulk purchase scheme and pay for it via a payment plan"* Anna, owner-occupier

Although met with some scepticism (mostly linked to the Green Deal), the consensus from stakeholders was that payment plans are a good idea in theory but could not be deployed without a lot of groundwork and regulation. The major drawbacks of this model are its complexity, and potential for price increases both for consumers and for the supply chain.

> *"This business model would not necessarily be our preferred method of delivery. As a company, being responsible for consumers' energy bills or owning assets within the property has added risks and overheads which would equate to increased costs ultimately borne by the consumer. Furthermore, reputational risk could be very high and therefore the model would be unsustainable in the long term."* Installer

For the social rental sector, which already relies on private borrowing, the payment plan model offers an opportunity to supplement the ongoing planned maintenance operations. This would offer the flexibility to upgrade properties on a one-off basis alongside their business-as-usual programmes.

> *"We could run our normal planned installs for the majority of properties, and then take out a payment plan for those that were missed out due to tenant refusals."* Peter O'Donnell, Hebridean Housing Partnership

For the private rental sector, it was suggested that payment plans such as green lease agreements could work well with long-term or lifetime tenancies. However, there is little incentive for short-term tenants to participate in this kind of model.

Supply Chain

There is a risk that smaller businesses will be excluded from the market if they are unable to offer payment plans or finance options for consumers:

> *"A major barrier exists with financial regulation, you need a Consumer Credit Licence so only big established businesses can provide finance*

> *options, and not smaller heat pump suppliers or agencies. While this protects customers it can hamper smaller businesses."* Dr Donal Brown, Sustainable Design Collective[3]

Attitudes to borrowing/debt

Private sector landlords and owner-occupier stakeholders had mixed opinions on taking on debt to pay for heating and fabric upgrades. Consumer acceptance of the payment plan model seemed very dependent on individual stakeholders' financial situation and attitude toward borrowing. Stakeholders who rejected the payment plan model could see that it may appeal to other consumers.

Uptake of the current Home Energy Scotland Loan was referenced as evidence of the appeal of loan-based payment plans to consumers. However, the complexity of the HES loan was referenced by multiple stakeholders. A straightforward consumer experience is requisite, particularly given the potential complexity of some payment plan arrangements. A one-stop-shop model would provide finance, advice, purchase heating or fabric upgrades, arrange installation and quality assurance through a single point of contact.

There is currently unequal access to borrowing and finance, which needs to be addressed for this model to be part of a just transition.

> *"Croft houses can't access financial borrowing as they don't have that security of tenure. Some people will have de-crofted their houses and got a mortgage, but not many."* David Wake, North Harris Trust

The length of contracts were seen as unappealing by owner-occupier and private sector landlords, although some stakeholders felt that this would be offset by the option to attach debt to properties.

> *"Keeping the debt with the property and not the buyer is a really good model in theory."* Elaine Waterson, Energy Saving Trust

The idea of attaching debt to the property was met with some concern, particularly by private sector landlords due to potential issues when trying to sell properties.

> *"That is not an appealing option. When I come to sell the property that debt will be off-putting for buyers, and that is a big risk for me."* Sue, private sector landlord

However, it was highlighted in the workshop with owner-occupiers that options such as on-bill payments or PACE (Property Assessed Clean Energy, financing model) would be a good option for property owners who may sell their property soon, particularly if regulation is introduced giving deadlines for properties to be upgraded by.

> *"Very useful for people who know that they will not be staying in a property for a long time. Without this there is no incentive for them to*

[3] Dr Donal Brown produced the **Homes Fit for The Future: The Retrofit Challenge** report for the Future Generations Commissioner for Wales.

> *pay for upgrades as it is unlikely they will get the investment back when selling the property."* David, owner-occupier

Equity release was not perceived as an attractive option by a majority of owner-occupier and private sector landlord stakeholders.

> *"Equity release fills me with horror"* Dory McIntosh, private sector landlord

One stakeholder referred to the recent Home Energy Efficiency Equity Loan Pilot in Argyll where they found that:

> *"A lot of older householders had transferred ownership of their property to their son or daughter, so they were unable to access the scheme because it's not their decision anymore."* Donnie Mackay, Energy Advice Service, Lochalsh and Skye Housing Association

More learnings from the pilot will emerge from the Scottish Government's recent call for evidence[4].

Trust and Regulation

A common theme from the stakeholder consultation was the risk that this model will attract profit-driven companies:

> *"Someone is making a lot of money from this and it's not tenants or landlords."* Zoe, private sector landlord

The need for regulation was mentioned frequently both to cap the profits of bodies offering payment plans, and to ensure that consumers are protected and can access low-cost borrowing. Several private sector landlords suggested price caps or government-set pricing structures. Stakeholders were also concerned with whether payment plan models would 'stack-up' financially. The idea of guaranteed savings made this model more attractive for owner-occupiers:

> *"I'd want some sort of incentive, or a guarantee of the savings. Otherwise, you risk paying each month towards the payment plan, and also potentially paying higher bills too."* Fiona, owner-occupier

Concerns were raised around how this would work in practice, and who is responsible for providing the guarantee:

> *"The performance guarantee element is good. But whose responsibility is it then if those expected savings don't happen? It can't fall onto tenants through their energy bills or rents. So, some sort of guarantee is needed to protect them."* *Cassandra Dove, SFHA*

One stakeholder discussed how, due to consumer protection legislation, domestic systems and energy supply are treated separately (unbundling) which ensures consumer

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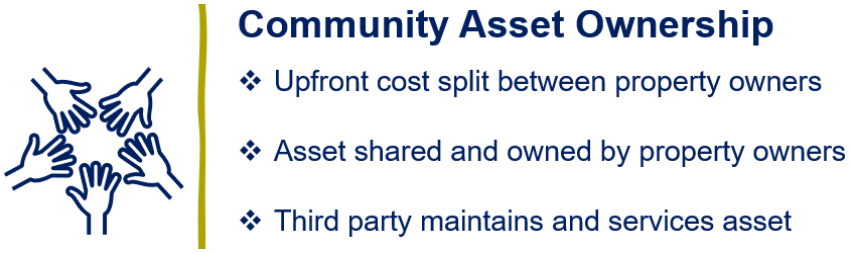
[4] **Equity loan scheme call for evidence: consultation** (Call for evidence closed on 8 Oct 2021)

choice. In practice, however, market unbundling can be a major barrier to market entry of those with innovative, socialised models and could warrant a review.

5.3 Community Asset Ownership Model



Community asset ownership divided stakeholders' opinions more than other models, resulting in it being rated less favourably overall in the summary table (pg. 5). Some felt it was aspirational given the resource required, whereas others believed it should occupy a central role in achieving decarbonisation in rural Scotland if adequate support is in place. The benefits of local and collective solutions were recognised by all stakeholder groups, though these benefits were perceived to be secondary to the challenge of achieving community ownership at a scale that would make significant impacts at a national level.

Stakeholders saw that this model offered opportunities for financial savings through collective investment and sharing operating and maintenance costs between users.

Risk and responsibility

Risk was a major theme which emerged in relation to community owned assets. The two areas of risk highlighted by stakeholders were financial risk for individuals or communities, and the increased impact of any technical fault which may leave multiple households without heating or hot water.

The consensus from stakeholders was that this model would need to be facilitated by a third party such as a community development trust or ESCo rather than a group of individuals. Particularly in small communities this would reduce the likelihood of disagreements derailing a project. Ethical questions were raised as to communities being responsible for delivering energy as well as community groups/members holding the burden of risk:

> *"It's not the responsibility of communities, there is a duty of care from national and local government, this is a human rights issue."* David Watson, Kyle of Sutherland Development Trust

Many existing projects rely on one or two dedicated individuals from within communities. Capacity and recruitment of volunteers is difficult in rural areas. This model may only be available to communities who have the social capital to access it. Communities without the requisite skills, time or knowledge may be left behind.

> *"In my experience, community-based models where communities are in charge will always end up with an 'us and them' situation."* David Watson, Kyle of Sutherland Development Trust

One recommendation to address this challenge was a 'Community one-stop-shop' (as with the collective purchase model) where resources and advice can be accessed.

Stakeholders from the social rental sector felt that this model was largely incompatible with their operational models. While the community benefits were acknowledged, the resources, time and risk associated with partnering with community groups or members was not viewed favourably.

> *"It's a distraction. It's not an efficient use of resource. I'm not saying that it wouldn't work but given the scale and pace that we need to move at, we need to do things efficiently."* RSL Director

Opportunities

Multiple stakeholders, particularly private sector landlords and owner-occupiers saw that there were opportunities to utilise this model with new housing developments.

> *"Retrofitting this kind of model would be difficult. But it's a good option for new developments. With new builds this could be a very attractive model, and it could be marketed as an 'eco-estate'."* Anna, owner-occupier

Many stakeholders strongly associated this model with community owned electricity generation and community benefit schemes for onshore wind developments. Suggestions from stakeholders included using community-owned electricity generation to power local heating systems, and using community benefit funding to finance a community-owned heating system, or even individual heating upgrades.

> *"Actual electricity generation could be owned locally and that would bring benefits to the local community and help with buy-in."* David Wake, North Harris Trust

The proposed Local Electricity Bill[5] was mentioned, which could allow community energy generators to sell electricity locally without paying high network charges.

Support required

Stakeholders felt the central element to making this a viable model for decarbonisation is to standardise approaches and models (finance, operational, ownership etc.) so that communities can build on the learnings and experiences of previously completed schemes.

> *"Community empowerment works if there is some money to be made. What you can't do is get into anything too technical – most community groups can't support technology as volunteers"* David Wake, North Harris Trust

It was highlighted that current forms of funding do not support community groups:

> *"This model is hampered by the financial side of things. Communal action for retrofit, for example in blocks of flats, is needed but we also*

[5] UK Parliament: **Local Electricity Bill**

need changes from a finance perspective – as far as I'm aware Scottish Government loans and grants for households can only be given to individuals not a group. So, this would need to change for communal action in some circumstances (e.g. blocks of flats)." Elaine Waterson, Energy Saving Trust

Scottish Government's Community and Renewable Energy Scheme (CARES) can directly fund groups that are incorporated. However, there is a gap in funding provision for those looking to support low carbon heating on a domestic scale.

Supply-side

There was low support for this model from stakeholders close to the supply chain and network infrastructure, due to the risks linked with stranded assets and resources committed to getting a project live which could collapse for a number of factors.

> *"Community ownership is an interesting model which could result in an income for the community for social benefit. However, I believe there needs to be more protection for community groups operating heat networks. For example, what if the system is designed or installed incorrectly? What if operating prices increase? What if consumers are dissatisfied? The community group is then left with many risks to manage, and they may not have the resources to do so. There should be ongoing protection and support for the community in this instance perhaps via a government agency or guarantee scheme."* Installer

The disparate nature of community schemes was also flagged as a barrier to market actors.

> *"Grant funding tends to be available for innovation, novel ideas, trials. There is a need now to coalesce learning and aggregate lessons, as it's no longer an engineering question but more about ownership, finance, business models that communities can take up at scale".* Dr Donal Brown, Sustainable Design Collective

5.4 Third Party Ownership Model

The value and multiple benefits third party ownership could achieve were apparent to many stakeholders.

> *"Third party ownership instead of collective ownership could encourage more rapid uptake of heat networks. Private companies are more likely*

> *to have the necessary capital to invest in the upfront costs and ongoing maintenance."* Citizens Advice Scotland

> *"If utility companies were involved (as third parties), this would give utility companies more control over load and load management, and better overall use of the grid"* David Wake, North Harris Trust

Whilst some stakeholders found it hard to conceptualise this model working in practice, the theoretical advantages were clear to them. However, private sector landlords in particular held some strong negative reactions to it. These mostly related to the complexity of the model, long contracts, mistrust of delivery organisations, the lack of ownership and potential problems selling properties.

> *"It's an ongoing cost that I never stop paying. What do I get out of that? I want to own the system and not be tied into a contract."* Sue, private sector landlord

Stakeholders from the social rented sector were receptive to assets being owned by third parties but had experience of the current legislative constraints or uncertainties which pose major barriers for the widespread roll-out of this model. Stakeholders from all sectors drew attention to the risks, both assumed and those experienced or witnessed to date. These included third parties going bankrupt, relying on a single provider for maintenance, RSLs being left with systems without expertise to manage them, and the additional complexity for RSLs when dealing with issues within Scottish Housing Regulator timeframes.

Third party ownership may add confusion and bureaucracy for tenants in terms of maintenance and emergency repairs. Clear divisions of responsibility and lines of communication are required to protect tenants. One stakeholder suggested that clarity as to how responsibilities are divided between landlord and third party may depend on who the third party is:

> *"Ideally Local Authorities should deliver and drive this, although perhaps it's more likely that this kind of model would be delivered through a partnership with the private sector."* RSL Director

Regulation

Two clear priorities for regulation to enable a widespread roll-out of this emerged from the stakeholder consultation. Regulation of third party delivery organisations is required to protect consumers from being exploited. Regulation is also required to ensure a clear and trusted journey which can normalise the buying and selling of properties with a third party owned element.

Various concerns around ownership were raised. It was suggested the point of sale could be particularly contentious, with concerns relating to the freehold, home values and mortgages with the learnings from the 'Rent a Roof' scheme being referred to by numerous stakeholders.

> *"PV rent-a-roof schemes have resulted in issues. We have heard that the properties may not be (financially) attractive, and that people can be reluctant to buy a home where the PV assets are owned by a third party.*

> *There is a need to dig into this more, understand what the issues and perceptions are and then try and tackle them."* Elaine Waterson, Energy Saving Trust

Risk

Opinions on this model were fairly divided amongst stakeholders in the owner-occupier and private rental sectors. The model was commonly compared to the payment plan model. For some, a clear advantage of the third party ownership model was the lack of any risks associated with consumer debt. For others, the lack of control over their heating system and maintenance was perceived as a greater risk.

It was flagged that some aspects of third party ownership may contravene accepted principles of consumer choice and autonomy. However, for most stakeholders this was secondary to concerns around getting correctly specified solutions to suit different properties. Some stakeholders would concede choice in exchange for a single solution if there was adequate assurance and trust in the technical solution and the provider. There was also acknowledgment that not all consumers desire, can access or use their rights to switch technologies, suppliers and tariffs.

The third party ownership model was seen as a way to reduce risk in the social rental sector. The risks associated with supplying heat were of particular concern to RSLs.

> *"There may be appetite from social housing providers for risk to be held by a third party, but also some concern about how that would be managed"* Cassandra Dove, SFHA

RSLs tend to operate in a risk averse manner and are reluctant to being tied into long contract terms. Some RSL stakeholders had explored this model for their own stock but dismissed it on account of risks. This model was perceived as being under-established, and lacking in positive examples of practice, case studies and learnings which could provide assurances.

> *"As a housing association we don't want to be pushing the boundaries or to be pioneering. We want to see that it has already worked."* Rural Housing Association

One suggested solution to reduce the risk to local authorities was an ESCo as a vehicle to leverage private investment. The point was made that an ESCo with Scottish Government backing could provide sufficient low-risk/low-cost finance to support the transition while minimising risk to investors and market actors.

High profile collapses of energy supply companies and operational changes by some of the Big Six suppliers were also reported to signal uncertainty and risks associated with supply to RSLs and private actors.

Opportunities

Some stakeholder organisations recognised that while consumers may be wary of this model initially, a cultural shift to widespread acceptance of this model is entirely feasible. Multiple examples of leasing models which were once unacceptable were given, such as mobile phones and cars. Stakeholders suggested that once there is a clear, legally

watertight and trusted pathway for consumers and the benefits are clearly demonstrated then the model could become mainstream.

> *“A shift in cultural attitude is possible! Changing from a buying model to a renting model is about demonstrating the advantage to consumers.”* Tony Cain, ALACHO

Trust

Caution was expressed about third parties being fully trust-worthy and delivering on promises. If issues of trustworthiness were addressed or guaranteed however, trust was posited as being a crucial lever for the acceptance and success of this model.

> *"In my experience, people would be wary if it was an energy company that were offering the third-party ownership. There can be some mistrust about private sector companies, but if a solution comes from a trusted public sector third-party, they are more likely to sign up"* David Watson, Kyle of Sutherland Development Trust

> *“This is a better solution than a payment plan, particularly if it is through utilities which have some credibility/trust.”* David Wake, North Harris Trust

Supply-Side

This was the model most favourably received by supply side stakeholders. Third party ownership aligned most closely with one manufacturer’s future operating model. Having assessed various business models, their organisation intends to work in mixed-ownership partnerships with housing associations to complete large scale projects.

The private rental and owner-occupier markets are more disparate and lack momentum and are seen as more challenging. As with the other models, the scattered nature of private sector installs was again cited as a deterrent to supply-side organisations. It was suggested that increased regulation to mandate low carbon heating, beyond the phase-out of gas boilers, would reduce risk. In rural and island communities there can also be insufficient demand to mitigate risks and allow for economies of scale for contractors.

One stakeholder explained that mixed-tenure approaches are unviable at present as the number of “moving parts” places the burden of risk on the supply chain. They referenced a project to upgrade housing association stock, which was then rolled out to the wider community. Due to differing consumer needs, preferences, and access to finance the rollout in private homes was difficult.

In addition to asset-related risks, supply-side stakeholders highlighted the reputational impacts that malpractice or poor customer service could have, due to how customers conceptualise their heating service. Often, they do not differentiate between their RSL, DNO or their supplier, so customer issues with one of these could pose barriers for all.

6. Calls on Scottish Government

The successful implementation of any model will require a clear steer via policy decisions and action from Scottish Government. While acceptance of the four models differed across stakeholders and sectors, responses converged around a number of areas that

need to be addressed to pursue any model or combination of models to achieve a just transition at scale.

Clarity from Scottish Government

One of the strongest themes to emerge was the need for clarity and strong decisions on the way forward. There is currently a sense of frustration from waiting or pulling in different directions, with a lack of visibility/capacity for futureproofing. A planned and clear approach could provide market stability, clarify future demands on the grid and reduce expenditure which is then passed onto customers.

> *"The single biggest thing that Government can do is to provide certainty, it's time to back the technologies that are deployable at scale and at pace. Waiting for markets to evolve will not bring change quickly enough for our net zero aspirations. We need fewer innovation trials and more bold deployments working closely with all parties, networks, local authorities, the public and the supply chain."* Steward Reid, Head of Future Networks, SSEN

In addition to decisions relating to types of energy, there were calls for a more explicit narrative around net-zero, to position it against competing priorities.

> *"There is this constant chasing of metrics. We need the narrative that underlies them – to give some weight to organisations to contextualise their policy and procedures."* Housing Association

> *"Even a strong narrative from government would be useful. Similar to the old 'Dig for Britain' or wartime effort imagery where people get behind a common driver is needed, in advance of hard targets."*
> Dr Donal Brown, Sustainable Design Collective

Centralised Co-Ordination

A clear desire was expressed for the existence of a centralised body/bodies to counter existing piecemeal approaches and coordinate market actors, resource and purchasing potential. This body would provide advice, quality assurance and hold overall responsibility for projects. The planned National Public Energy Agency could provide an avenue to coordinate at a national level, though local coordination was also called for.

> *"The higher we go in the pyramid, the better. SHIP [Strategic Housing Investment Plan, in Scottish Borders] is a replicable model which has the right parties involved and the right process. A national framework of guidance as to how local authorities achieve this and work with RSLs. This is not something of added value, it is a key pillar. The remit may sit with SFHA to draw together but given the scale, there could be a dedicated body that understands the science and varied RSL interests."*
> Housing Association

Such a body could draw together the learnings from previous completed projects.

> *"Such longitudinal learning can be missing from government due to the churn of policy facing roles. Resource are being wasted with duplication of projects and mistakes."* Dr Donal Brown, Sustainable Design Collective

It was suggested that the costs associated with this are rolled into the costs of low carbon technologies and built into any financing mechanisms. Various opinions existed as to who might be best placed to operate this (e.g., utility companies, local authorities, private sector) once the critical factor of public trust is met.

Scale of Ambitions

The collective purchase model in particular hinges on the scale with which it is pursued. Co-ordinating it at scale, for example through one-stop-shops, would support developing stakeholder confidence for taking action. This would be more beneficial than disparate pockets of activity, where varied needs create unhelpful competition and prevent widespread uptake.

In terms of consumer acceptance and 'buy-in', multiple stakeholders referred to the influence of neighbours and local communities. Visibility of technologies being used locally (through area-based approaches) was emphasised as an important factor.

> *"Peer support and validation are how to sell it to householders. Your neighbours are investing in something. Other people can see it happening and they want in on it."* David Wake, North Harris Trust

Standardisation

Stakeholders called for standardised 'off-the-shelf' resources and delivery models to be made available. This was particularly true for the community asset ownership model, though applied to all. Suggestions for standard resources included:

- Legal documents and advisory notes
- Cookie-cutter delivery models/ownership frameworks
- Contracts outlining relationships for community groups/ESCos/Third parties

National legislation on minimum standards was considered crucial by many stakeholders, to ensure that solutions are delivered to the same standard across the country as part of a fair and just transition.

Stimulation of Markets/Risk management

All stakeholders called for intervention to stimulate or develop markets and minimise risks involved.

> *"There is definitely a need for regulation. Voluntary uptake will only get us so far. Either through the mortgage market and/or banning the installation of gas boilers. Obsessing about perfect delivery model is less important than a strong driver."* Dr Donal Brown, Sustainable Design Collective

Financial Models

All routes forward will require the provision and establishment of robust and accessible financing models. The failures of the Green Deal remain fresh in the minds of stakeholders and the wider public. In addition to loans and grants, there were calls for reviewing

legislative issues which would hamper accessing finance to support the roll-out of these models.

Some stakeholders raised the possibility of forming a local or national Government-backed ESCo to deliver low carbon heating. This could encourage longer-term investment with lower risk and lower yields suited to public sector investment. The scale of this is key to free up cheap finance to then achieve at scale. This may fall within the remit of the Scottish Government's proposed public energy agency.

In Conclusion

Some, or all of the delivery models identified by this research will be fundamental to support wide-scale decarbonisation in a replicable, scalable and fair manner, and to meet the pace and scale of Scotland's climate change targets and timescales. The consultation revealed challenges across all four models for different stakeholder groups. To support a just transition, Scottish Government will need to work with stakeholders to address these barriers.

The Discussion paper which details the approaches to decarbonisation can be downloaded **here**.

The Research Report which describes the methodology and research process can be downloaded **here**.

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