 Regulatory Policy Committee	Opinion	
Impact Assessment (IA)	Allowable Solutions – in support of Zero Carbon Homes policy	
Lead Department/Agency	Department for Local Government and Communities	
Stage	Developmental/Pre Consultation	
IA Number	DCLG 1315	
Origin	Domestic	
Expected date of implementation (and SNR number)	2016	
Date submitted to RPC	18/07/2013	
RPC Opinion date and reference	29/07/2013	RPC13-CLG-1852
Overall Assessment	AMBER	
<p>RPC comments</p> <p>The IA is fit for purpose. We note that the IA states that “<i>this development stage impact assessment provides a preliminary analysis of options for the delivery of Allowable Solutions under the zero carbon policy. It sets out design principles for Allowable Solutions’ measures, pricing and delivery models. It seeks evidence to inform further work which will be undertaken following this preliminary consultation and which will be reflected in further formal consultation in due course on the detailed design of Allowable Solutions</i>” (paragraph 1). The issues raised below should be addressed in the IA prior to the preliminary consultation.</p>		
<p>Background (extracts from IA)</p> <p>What is the problem under consideration? Why is government intervention necessary?</p> <p>The Government’s Carbon Plan concludes that to meet its target of an 80% reduction in greenhouse gas emissions by 2050, the emissions footprint of buildings by 2050 will need to be ‘almost zero’. Homes have a long lifespan and represent more than one quarter of the UK’s carbon dioxide emissions, so it is important that new homes have a minimal impact on long term emissions. Action at the point of build can lock in efficient design, reduce energy demand and avoid future retrofit costs, though market failures, including information failure and misaligned incentives, mean this abatement will not happen without government intervention. A tight zero carbon build standard can be more cost effective where house-builders have an onsite minimum level together with an option to abate beyond this offsite where this is more cost effective. Design of these offsite ‘allowable solutions’ should ensure additionality, competition and sufficient options to house-builders to encourage innovation and cost effective abatement while incentivising more onsite abatement where appropriate.</p> <p>What are the policy objectives and the intended effects?</p> <p>This development stage impact assessment focuses on the design principles and options for an offsite allowable solutions element to the zero carbon homes build</p>		

standard. Rather than prescribing a list of allowed measures, the proposed approach offers a set of criteria which have to be met which could be accompanied by a list of excluded measures. This will help to minimise costs and encourage innovation. The criteria proposed are: complementary with other Government programmes, market additionality to ensure projects could not otherwise have been brought forward, cost effectiveness, to reduce costs to house-builders, including through competition, and the delivery of verified carbon impacts. A further spatial criteria requires that the abatement should construction should normally take place in the UK.

Identification of costs and benefits, and the impacts on business, civil society organisations, the public sector and individuals, and reflection of these in the choice of options

Net Present Value. We note that this early assessment appears to provide a negative net present value (NPV) (paragraph 20.9), which appears to be a result of the main benefits of the proposal being non-monetised at this stage. The IA should provide further evidence and discussion to explain this value, taking account of the spatial criteria relating to the abatement of construction within the policy's objective.

Additionality. The IA says that “As a sensitivity we have assumed only 75% additionality” (paragraph 20.2). As well as testing at consultation to strengthen and justify at a later date, the IA should explain the circumstances that lead to 25% deadweight, and explain any potential policy overlaps, such as with the Energy Company Obligation (ECO) and the Green Deal (paragraph 16.5).

Familiarisation costs. The IA discusses the relevant administrative costs associated with the House Builder 'menu' option (section 13) and explains how such costs will need to be tested at consultation stage. As the 'menu' approach “allows for house builders to ‘mix and match’” (paragraph 13.3), the IA should provide additional familiarisation costs to business as part of the process of choosing from the menu.

Decarbonisation. It is assumed within the IA that Allowable Solutions investments will abate carbon for 30 years, which is because some technologies are “likely to have a design life of around 30 years”. In addition, the IA explains that “setting a period of 30 years provides an approximation of the period beyond which the electricity grid will have been substantially decarbonised” (paragraph 9.4). It appears, therefore, that there is a risk of homes ceasing to be 'zero carbon' after this 30 year period which is presumed to be offset by the intended decarbonisation of the electricity grid. The IA should provide more information on how this is going to be achieved, over what timeframe, and provide a full assessment of the risks regarding 'Zero Carbon Homes' if this does not occur within the intended timescales.

Build rates. The IA assumes the same build rates as in the IA for the 2013 changes to Part L of the Building Regulations (Table2). The IA should provide more detail to substantiate that this is a realistic assumption, given the additional costs faced by house-builders as a result of the proposal. The impact on the housing market was previously raised in our Opinion for Zero Carbon Homes (RPC11-DCLG-0856). Whether or not the costs will affect the viability of house-building should be tested with consultees.

Summary sheets. At present the IA does not contain summary sheets for all the Options. Given the length of the IA and the complexity of some of the analysis, the IA would benefit from providing these in full in order to assist with the consultation.

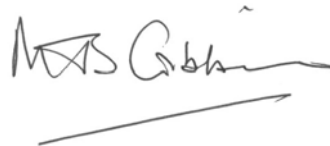
Comments on the robustness of the Small & Micro Business Assessment (SMBA)

The proposals regulate business and are intended to come into force after 1 April 2014 and therefore the SMBA is applicable. The inclusion of the SMBA is unnecessary at this developmental stage, but will have to be provided at consultation stage.

Comments on the robustness of the OITO assessment.

On the evidence presented at this stage, the IA says that this is a regulatory proposal that is in scope of OITO and would impose a direct net cost to business (an 'IN'). Based on the evidence presented this assessment appears reasonable and is consistent with the current Better Regulation Framework Manual (paragraph 1.9.10). This should be refined following the preliminary consultation, prior to the submission of the Consultation stage IA.

Signed

A handwritten signature in black ink, appearing to read "Michael Gibbons", with a long horizontal line underneath it.

Michael Gibbons, Chairman