

Future Homes Standard

Lead department	Ministry of Housing, Communities and Local Government
Summary of proposal	The proposal is to introduce the Future Homes Standard (FHS) through secondary legislation amending the Building Regulations 2010 for new dwellings and the Building Regulations 2024. New dwellings built to the FHS will not require any retrofit work to achieve zero carbon emissions in use, once the electricity grid is fully decarbonised. The FHS applies to England only.
Submission type	Impact Assessment – 17 November 2025
Legislation type	Secondary legislation
Implementation date	2026
RPC reference	RPC-MHCLG-25107-IA(1)
Date of issue	16 February 2026

RPC opinion

Rating¹	RPC opinion
Not fit for purpose	The IA quantifies substantial impacts, including an equivalent annual net direct cost to business (EANDCB) of £709 million and a net present social value (NPSV) of £11.3 billion, which alongside the large number of businesses likely affected places a higher bar on evidential sufficiency expected of a final stage IA. While the IA provides a structured narrative on options development and a rigorous assessment of the preferred option, key elements on small and micro business exemption trade-offs and comparative appraisal across viable packages remain insufficiently evidenced.

¹ The RPC opinion rating is based only on the robustness of the rationale, options identification (including SaMBA) and justification for preferred way forward, as set out in the [Better Regulation Framework guidance](#). RPC ratings are fit for purpose or not fit for purpose.

RPC summary

Category	Quality ²	RPC comments
Rationale	Green	The IA sets out the problem and a market-failure rationale for intervention and links the proposal to statutory net zero commitments. The IA identifies key barriers and explains why action at the point of build can avoid costly retrofit. The IA would benefit from quantifying more clearly the remaining gap and mapping each market failure to specific policy design features.
Identification of options (including SaMBA)	Red	For such a high impact measure, the final stage IA must demonstrate a detailed consideration of exemption as the default for the small and micro business assessment (SaMBA). This must include the magnitude of benefits sacrificed and cost incidence, or a clearly evidenced explanation of why this is not possible, and a sufficiently transparent, evidenced basis for rejecting exemption. The discussion of non-legislative options is too high-level and should clearly demonstrate why non-regulatory alternatives have been rejected.
Justification for preferred way forward	Red	The IA provides a well-quantified appraisal of the preferred option against the counterfactual and includes sensitivity analysis. However, the final selection of the preferred option relies primarily on an insufficient narrative comparison rather than a detailed quantitative appraisal across a shortlist of viable do-something packages.
Regulatory Scorecard	Satisfactory	The IA presents monetised welfare impacts and business and household metrics clearly and provides narrative on non-monetised impacts and variation by dwelling archetype for the preferred option. The IA should reconcile pass-through and incidence assumptions consistently and provide stronger evidence for qualitative claims on competition and innovation.
Monitoring and evaluation	Satisfactory	The IA sets out a monitoring and evaluation plan with a post-implementation review (PIR) within five years and proposed research questions and data sources and recognises

² The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. The definitions of the RPC quality ratings can be accessed [here](#).

attribution challenges. The IA should clarify governance, resourcing and milestones and how evaluation will test the theory of change alongside concurrent policies.

Response to initial review

As originally submitted, the IA was not fit for purpose for the following reasons:

1. The IA had not considered the exemption of small and micro businesses (and/or medium-sized businesses) and had not assessed the trade-offs from exemption.
2. The IA had not considered alternatives to regulation with sufficient worked-through evidence.
3. The IA had provided insufficient justification for discarding options from the longlist and selecting the shortlist.
4. The IA contained a very limited set of shortlist options, with insufficient justification.
5. The IA contained insufficient appraisal to support the selection of the preferred option.

The Department has made significant improvements and has now:

1. Expanded the options narrative, including a non-legislative option in the longlist and consultation-led revisions to the preferred package and transitional arrangements.
2. Added qualitative small and micro business and medium-sized business (MSB) material, including discussion of enforcement and avoidance risks for exemptions.

However, the IA remains not fit for purpose. The IA does not provide an adequate evidence-based assessment of the impacts of exempting small and micro businesses (SMBs). For example, the IA should present an indicative, proxy-based assessment of the exemption trade-offs (including foregone benefits and distribution of costs), or clearly evidence why such analysis is not feasible. In addition, the Department must strengthen its appraisal of the full range of viable 'do-something' packages including provision of comparative NPSVs.

Summary of proposal

The Ministry of Housing, Communities and Local Government (MHCLG) is proposing to introduce the Future Homes Standard (FHS) through secondary legislation amending the Building Regulations 2010 for new dwellings and the Building (Registered Building Control Approvers etc.) (England) Regulations 2024. New dwellings built to the FHS will not require any retrofit work to achieve zero carbon emissions in use, once the electricity grid is fully decarbonised. The FHS applies to England only.

The IA describes the FHS as a 'zero-carbon ready' standard, meaning new dwellings constructed to the Standard should not require retrofit work to achieve zero carbon emissions in use once the electricity grid is fully decarbonised. The IA states that the policy is delivered through a performance-based 'notional building' approach and a functional requirement for on-site renewable electricity generation, supported by Approved Document guidance and exemptions for higher-risk buildings.

The IA states that the notional building includes a heat pump, wastewater heat recovery, improved airtightness and decentralised mechanical extract ventilation. The Department notes that the package also includes wider technical and legislative amendments, including updated guidance on commissioning and certification of fixed building services, enhanced Home User Guides, and an updated compliance methodology underpinned by the Home Energy Model (HEM) with a dual running period alongside the Standard Assessment Procedure (SAP).

The Department describes transitional arrangements intended to support industry adaptation. The IA describes a 12-month period between legislation being laid and coming into force, followed by a 12-month transitional period, and separate transitional arrangements for higher-risk buildings that reflect the Gateway process managed by the Building Safety Regulator.

The Impact Assessment (IA) includes 6 longlist options considered by the Department prior to consultation:

- Option 1 (Do maximum): A notional building including a heat pump, solar PV (covering equivalent of 40% of ground floor area), wastewater heat recovery, improved airtightness and decentralised mechanical ventilation; with transitional arrangements as per option 3 or option 4.
- Option 2 (Do minimum): A notional building including a heat pump but excluding the additional technologies included in option 1; with transitional arrangements as per option 3 or option 4.
- Option 3: 18-month transitional arrangements (6 months between laying and coming into force, plus 12 months transitional period).
- Option 4: 24-month transitional arrangements (12 months between laying and coming into force, plus 12 months transitional period).
- Option 5: Business as usual approach retaining existing 2021 energy efficiency standards for dwellings.
- Option 6: Non-legislative options designed to encourage and enable developers to construct dwellings to higher energy efficiency standards, without mandating this through the building regulations.

Following consultation, option 6 was eliminated and options 1, 2, 3, 4, and 5 were progressed to the shortlist stage, alongside a new option. The Department developed a new option as the preferred option. This new option is similar to Option 1, but with a renewable electricity generation requirement that offers more flexibility for developers and is therefore more achievable. As in Option 1, this would see the notional building for new dwellings include a heat pump, wastewater heat recovery, improved airtightness and decentralised mechanical extract ventilation. However, instead of any solar requirement being included in the notional building, the new policy option would introduce a new legislative requirement (“functional requirement”) for a reasonable provision of on-site renewable electricity generation.

For the preferred option, the IA reports a central NPSV estimate of £11.3 billion and an estimated EANDCB of £709 million with business net present cost of -£7.7 billion. The IA reports an equivalent annual net direct cost to households (EANDCH) of £90.5 million.

Key impacts include:

- Monetised carbon and air quality benefits of £20.5 billion (including air quality benefits of £711 million)
- Non-traded carbon savings of 118 metric tonnes of carbon dioxide equivalent (MtCO₂e)

Rationale

Problem under consideration

The IA sets out the problem of climate change and links the policy to the UK's legal commitment to achieve net zero greenhouse gas emissions by 2050, with interim targets set through carbon budgets. The IA notes that residential buildings were responsible for 14% of total UK greenhouse gas emissions in 2024 and that substantial reductions are required by 2040 in the Climate Change Committee's balanced pathway. The IA also states that retrofit of homes to an FHS-equivalent standard is around 66 to 80% more expensive and disruptive than building to higher standards at the point of construction.

The IA notes that the 2021 uplift to Part L, which is the section of the Building Regulations that sets out energy performance requirements for new dwellings, delivered meaningful improvements but was intended as a transitional step towards the Future Homes Standard. The IA frames the problem as the risk that, without further intervention, new dwellings will continue to be built to standards that are not compatible with a pathway to 'zero-carbon ready' performance, increasing future retrofit need and slowing progress towards carbon budget delivery. The IA should set out more clearly the scale of the remaining gap the Standard is intended to address and the expected contribution from the FHS.

Argument for intervention

The IA sets out a rationale for intervention based on market failures including split incentives, credit and resource constraints, negative externalities, coordination failure and imperfect information. The IA explains why Building Regulations are the primary mechanism for setting national minimum standards for new dwellings and why action at the point of build can avoid reliance on later retrofit. The IA should tighten the link between each market failure and the specific design features of the preferred package.

The IA discusses how the policy sits alongside other interventions, including Energy Performance Certificates (EPC) and retrofit schemes, and argues these measures are not sufficient to overcome the identified market failures and deliver objectives at scale. The IA also describes wider claimed benefits including support for supply chains and familiarity with low-carbon technologies. The IA should clarify how evidence supports the claimed insufficiency of other measures and how interactions with constraints such as electricity networks affect feasibility and costs.

Objectives and theory of change

The IA includes the following 'SMART' objectives:

- New dwellings built to the FHS will be zero-carbon ready by default, with the FHS implemented as soon as is reasonably possible to contribute to the UK Government's legal commitment to achieving net zero greenhouse gas emissions by 2050 whilst giving the sector adequate time to adjust

- Reduce operational energy use, and therefore carbon emissions from new dwellings by at least 75% compared to 2013 standards
- Grid-connected homes will contribute more on-site renewable generation and help manage peak demand
- Energy costs for occupants will be lower than the typical existing home and more predictable
- New dwellings will be high-quality and comfortable
- New dwellings will be cost-effective, affordable, practical and safe

The IA states that objectives are measurable through monitoring uptake of the Standard. The IA states that objectives are achievable because the Standard builds on the 2021 uplift and established compliance routes, and time-bound through transitional arrangements and expected adoption over time. Several objectives remain qualitative in magnitude and rely on expectations rather than quantified target values, which limits their use in transparent options appraisal and evaluation design. The IA should strengthen the ‘SMART’ framing by specifying measurable indicators or thresholds for key outcomes where feasible and by setting out how trade-offs between ambition and deliverability were assessed against these indicators.

The IA includes a theory of change linking regulations, guidance and compliance tools to technology uptake, improved building performance and long-term emissions reductions.

Identification of options (inc. SaMBA)

Identification of the ‘longlist’ of options

The IA sets out a longlist including two notional building specifications, alternative transitional arrangements, a counterfactual/business as usual benchmark and a non-legislative option. It describes modelling and engagement used to identify specifications that balance delivery of objectives with practicability and explains why 18- and 24-month transitional arrangements were considered. The IA provides assessments against the ‘SMART’ objectives and Green Book critical success factors, and explains how consultation feedback led to revisions and development of the preferred option.

The IA would be improved by setting out in more detail the process followed for identifying and considering the options longlist, in a structure similar to the Green Book’s strategic options framework filter. The IA would also benefit from considering international evidence and interactions with other policy interventions.

The IA gives no consideration to options that would exempt SMBs and MSBs from the scope of the proposals while still achieving most of the SMART objectives. The Department does, however, provide explanation for non-consideration of exemption in section 14, which is commented on in the SaMBA and medium-sized business assessment section below.

Consideration of alternatives to regulation

The IA includes a non-legislative option and provides a high-level rationale for why voluntary approaches would be unlikely to secure consistent take-up or guarantee

delivery of the policy objectives. The IA also cites evidence that developers generally do not build above Building Regulations standards and argues that voluntary approaches lack enforceability and uniformity. However, the IA should go beyond this high-level rationale by providing a worked-through assessment of standard alternatives to regulation and explaining for each how it would be expected to influence behaviours. Where these options are not taken forward from the longlist, the IA should show on an evidenced basis, why they were rejected. The IA would benefit from providing clearer evidence on the extent and nature of engagement with affected sectors that informed the rejection of alternatives, and should draw on relevant evaluations or international experience where available. Where conclusions on alternatives rest on assumptions about likely uptake, feasibility, compliance or enforcement, the IA should set out how those assumptions were tested and what evidence supports them, including how related constraints such as electricity networks and heat network deployment affect effectiveness.

The IA should also explain explicitly why the non-legislative option is judged insufficient relative to the stated objectives, risks and deliverability constraints, and how that judgement informed the decision to proceed to a shortlist consisting of only regulatory options.

Justification for the shortlisted options

The IA explains that it uses Critical Success Factors (CSFs) to narrow the longlist to a shortlist and to support the selection of a preferred way forward. It presents RAG ratings against the 'SMART' objectives and CSFs for each of the six longlist options, with explanations for each rating. However, the 'SMART' objectives are not specified with sufficient precision, which makes it difficult to assess transparently how well each option meets them and weakens the robustness of the longlist appraisal. In addition, the quality of the explanations justifying individual RAG ratings is uneven, as some ratings are supported only by assertion rather than by clear logic or evidence. The IA does not clearly explain how the CSF and objective-level assessments have been combined to discard longlist options and select the shortlist, and therefore does not provide a consistent, transparent or well-evidenced justification for the options taken forward.

The shortlist includes the business-as-usual option, the 'do minimum' option, the preferred option, and the two transitional arrangement options. Green Book guidance details that a shortlist should consist of at least four options unless sufficiently justified: the preferred option, a 'Business as Usual' benchmark; a viable "do-minimum" option that meets minimum core requirements to achieve the objectives identified; and at least one viable alternative option. In this IA, the option labelled "do minimum" (option 2) is, in substance, a viable alternative option involving a material change in scope, rather than a minimal adjustment to current policy. As a result, the shortlist does not fully adhere to the Green Book guidance and does not clearly identify the smallest change that would still achieve the stated objectives. The IA could strengthen this section by explicitly stating the true 'do-minimum' alternative in this context that would meet core requirements in relation to the objectives.

The Department's appraisal recognises that different technical specifications and transitional timelines produce different profiles of costs and benefits and different delivery risks, including impacts on housing supply and on different developer types.

The shortlist discussion should more clearly distinguish between impacts driven by the preferred specification and those that are primarily driven by transition speed and implementation assumptions. The IA would benefit from describing how the shortlisted options compare on the key trade-offs in deciding on the preferred way forward, including delivery risks, timing of benefits and distributional effects.

SaMBA and medium-sized business assessment

The IA identifies that small and micro businesses in scope include developers, architects and technical specialists and provides indicative counts by size band for key sectors. It also discusses how impacts may vary by business size and capacity and sets out mitigations including increased flexibility for renewables, publication of technical specification in advance, longer transitional arrangements and a dual running period for SAP and the HEM.

However, for a high impact measure, the final stage IA's SaMBA is not adequately evidenced against the principle of default exemption. The IA references data from a market federation report and from the Competition and Market Authority that use different definitions of SMBs and SMEs based on the number of developments or completions per year, to give an indication of their share of housing construction. The IA states there is insufficient data on the proportion of homes constructed by SMBs and MSBs under the Better Regulation Framework definitions and therefore it has not been possible to isolate the impact on SMBs or quantify how much of the intended benefits would be sacrificed under an exemption. Given the scale of the measure and the default-to-exempt principle, the IA must provide the required evidence-based assessment of the impacts of exempting SMBs. For example, an indicative, proxy-based assessment of benefit sacrifice and cost incidence together with a plan to test the key assumptions with stakeholders, or a clearly evidenced explanation of why such analysis cannot reasonably be undertaken.

The IA also argues that firm-size exemptions would be difficult to enforce, could be exploited (for example by larger businesses splitting into smaller businesses to fall below any threshold) and would create a more complex compliance environment for building control and would create a two-tier market and adding to the stock of homes requiring later retrofit. These are relevant considerations, but they require clearer evidential support, including how avoidance risks and enforceability were tested in practice and how the decision not to exempt is proportionate given the distribution of costs and benefits.

More broadly, the IA must also provide a clearer assessment of how impacts differ by firm size, including which groups face higher relative costs and how far proposed mitigations would address those impacts in practice.

Justification for preferred way forward

Appraisal of the shortlisted options

The IA provides a well quantified appraisal of the preferred option relative to a Part L 2021 counterfactual and includes sensitivity analysis on key assumptions, including carbon values, counterfactual heating replacement and routes to compliance, and scenarios relating to solar export.

However, for a high impact measure, the final stage IA must go beyond preferred versus counterfactual monetised appraisal and provide a clear comparative assessment across a shortlist of viable do-something packages. It is not sufficient that the final IA refers to monetised appraisals of the maximum and minimum options included within the consultation IA. It must set out, in a consistent way, how the main cost drivers, emissions impacts, risks and timing differ across the shortlisted options, in order for it to be sufficient to support the selection of the preferred option over other viable shortlisted options.

The IA reports a central net present social value of £11.3 billion and reports a business EANDCB of £709 million with a business net present cost of -£7.7 billion. The IA reports a household EANDCH of £90.5 million and a household net present cost of £2.5 billion, and notes sensitivity of household outcomes to assumptions about export tariffs and relative retail energy prices. However, the IA must show how these key quantified results, and the key modelling assumptions that drive them, differ across the main alternative packages considered, and should present comparable results (or indicative ranges) for the alternative options on the shortlist, not only for the preferred package.

The IA also identifies non-monetised impacts including housing supply impacts and wider grid reinforcement costs and explains that these are not monetised due to limited evidence and expected rarity or uncertainty. Given the scale of this measure, the IA must be explicit about the thresholds at which these uncertainties could change option ranking and should provide bounded estimates or scenarios for key non-monetised impacts where feasible, setting out clearly how variations in these factors could affect the relative performance of the shortlisted options.

Selection of the preferred option

The IA states that the preferred option was selected because consultation indicated that option 2 lacked ambition to meet objectives and option 1 was impractical due to solar coverage requirements, leading to development of a revised approach that increases flexibility for renewables. The IA states that 24-month transitional arrangements are the shortest timeframe that still gives industry sufficient time to adjust and mitigates housing supply risks, and that separate arrangements are needed for higher-risk buildings given the Gateway process. For a measure of this scale, the final stage IA must set out the key risks and uncertainties associated with each viable shortlisted package and explain how these have been weighed alongside the quantified impacts in selecting the preferred way forward. This should include a clear explanation of how these factors influenced the choice between options.

The IA discusses behavioural responses to transitional arrangements, including the possibility of increased applications to secure building to previous standards, and sets out separate transitional arrangements for higher-risk buildings. The IA must provide firmer evidence to support the selected transition length and should quantify, at least illustratively, how alternative transition profiles would shift costs, benefits and objective delivery over time, including their implications for housing supply and distributional effects. It must also explain how these transition choices affect the comparative appraisal across viable packages, including whether different transition lengths could materially change the relative performance or ranking of the shortlisted options.

Regulatory Scorecard

Part A

Total impacts including non-monetised and distributional impacts

The IA reports the preferred option's monetised welfare impacts, including a net present social value of £11.3 billion. It reports monetised carbon savings valued at £19.8 billion and air quality benefits of £711 million, with non-traded carbon savings of 118 MtCO₂e and cost effectiveness of £74/tCO₂e. The IA also identifies non-monetised impacts such as housing supply and grid reinforcement costs. The IA should provide clearer justification for the treatment of key non-monetised impacts, including whether bounded estimates or scenarios would be feasible and proportionate given the scale of impacts.

Impacts on business including non-monetised and distributional impacts

The IA reports a business net present cost of -£7.7 billion and an EANDCB of £709 million, driven mainly by higher capital and installation costs for developers and additional maintenance and replacement costs for landlords, alongside transition and familiarisation costs. The IA states that no pass-through of business costs to households has been assumed and notes that evidence on pass-through is mixed. The IA should reconcile incidence and pass-through assumptions consistently across the scorecard and the evidence base and explain how these assumptions affect interpretation of the business impacts.

Impacts on households, individuals or consumers including non-monetised and distributional impacts

The IA reports a household net present cost of £2.5 billion and an EANDCH of £90.5 million, driven mainly by higher maintenance and replacement costs for owner occupiers, partially offset by energy cost savings. The IA notes that energy cost savings are sensitive to assumptions about solar export tariffs and retail price differentials, and that savings would be larger relative to a typical existing home than relative to the Part L 2021 counterfactual.

The IA states that significant distributional impacts are not expected. However, given the scale of impacts and the potential for pass-through through house prices or rents and interactions with standing charges and export constraints, the IA should explain more clearly the potential channels through which households could be affected and how uncertainty in these channels affects the overall assessment and the distribution of costs and benefits.

Part B

Business environment

The IA states that performance-based standards are technology agnostic and may encourage innovation in low-carbon technologies and supply chains, and suggests competition impacts are limited because standards apply nationally. The IA should include stronger supporting evidence for these claims or present them more cautiously, with a clear distinction between effects that are expected and those that are more speculative. The IA should also provide a proportionate assessment of the

competition and innovation impacts of this measure, going beyond a brief reference, to set out the main channels through which it is expected to affect market entry, concentration and technology deployment.

Trade and investment

The IA states that there are no major trade and investment impacts and notes that competitiveness effects would vary by sector, while suggesting that innovation could increase export opportunities and that the policy aligns with international trajectories. The IA should provide clearer evidence of which sectors are exposed to trade impacts and how the scale of any competitiveness effects has been assessed, and it should distinguish between general statements and substantiated impacts specific to this proposal.

Natural capital and decarbonisation

The IA reports that the preferred option delivers substantial non-traded carbon savings of 118 MtCO₂e, valued at £19.8 billion, and air quality benefits of £711 million. It reports cost effectiveness of £74/tCO₂e relative to a Green Book comparator. The IA should ensure that the decarbonisation narrative links clearly to the quantified results and key assumptions, including treatment of traded and non-traded emissions and grid decarbonisation, and should explain any relevant environmental impacts beyond carbon and air quality and why remaining gaps are acceptable.

Monitoring and evaluation

Monitoring and evaluation

The IA sets out a monitoring and evaluation plan structured around process, impact and value for money evaluations and proposes use of EPC lodgements data alongside other sources and stakeholder engagement. The IA includes proposed research questions and potential data sources and commits to publishing a PIR within five years of the FHS coming into force. These elements provide a basis for evaluation planning. The IA should specify clearer metrics and milestones for monitoring during the transition period and early implementation, including how specific data will be used to test whether objectives are being met.

The IA recognises that there will be attribution challenges in conducting evaluation because of concurrent policies and external factors. The IA suggests the evaluation could adopt mixed-methods and theory-based evaluation approaches to strengthen causal inference. The IA should set out a clearer evaluation design for how attribution will be established and how evidence will test the theory of change, including how it will separate effects of the FHS from other policy and market developments.

The IA states that The Department expects evaluation may continue beyond the initial PIR and that resourcing is reliant on departmental budgets. For a high impact measure, the IA should clarify governance and resourcing arrangements for the evaluation programme, including decision points, responsibilities and triggers for earlier review where monitoring indicates risks or unintended consequences.

Regulatory Policy Committee

For further information, please contact enquiries@rpc.gov.uk. Follow us on X [@RPC_Gov_UK](https://twitter.com/RPC_Gov_UK), [LinkedIn](https://www.linkedin.com/company/rpc-gov-uk/) or consult our website www.gov.uk/rpc. To keep informed and hear our views on live regulatory issues, subscribe to our [blog](#).