

For a socially ambitious EPBD recast: Dedicated funding, monitoring and regulation to target unfit housing of energy poor households

Who are we?

FEANTSA is the European Federation of National Organizations Working with the Homeless. Our experience of building renovation is 1) that of the social services providers who are themselves facing the need to renovate shelters and housing, and 2) the low-income households who face the challenge of inadequate housing condition and/or pressure of rising rents and gentrification.

Key take away: The Energy Performance of Building Directive (EPBD) recast is a praiseworthy intent but lacks adequate tools to deliver for the needs of the most vulnerable.

A core element of the energy transition is to achieve a massive improvement in the energy efficiency of buildings, reflected in current EU policy such as the revision of the EPBD. This revision also has the potential to bring significant social, health, and economic benefits to lower income and vulnerable households, through improved housing conditions. These multiple benefits and ‘win-win-win’ outcomes, cannot, however, always be assumed. The risk of unintended negative consequences has been raised by some early experiences of renovation programmes, such as increased overall housing costs¹.

The European Commission proposal for a revised EPBD directive claims its focus on the worst performing buildings will help fight energy poverty. It sets EU-level minimum energy performance standards that require worst-performing residential buildings of each Member State to be upgraded from an Energy Performance Certificate's Grade G to at least Grade F by 2030, and to Grade E by 2033. The focus on the very lowest performing buildings is framed as an effort to renovate buildings with the highest potential for decarbonisation, as well as to address energy poverty and increased social impact.

FEANTSA believes that prioritizing renovation for households that face energy poverty and poor housing conditions is the cornerstone of a just transition. FEANTSA argues the text as it currently stands, in association with other related EU initiatives such as the extension of the ETS to building and transport, and the Social Climate fund, is far from being sufficient to address the housing deprivation and energy poverty and could contribute to the rise in living costs, particularly housing costs. This could lead to a deepening and broadening of housing exclusion. The introduction of mandatory energy performance standards, as they currently stand, might well be counterproductive and fail to bring the social acceptability needed for the policy changes needed to reach the EU's climate target.

¹ For more information on some of the potential social risks associated with major renovation programmes, and potential strategies to avoid or mitigate such risks, see FEANTSA's report: "Renovation: Staying on top of the Wave: Avoiding social risks and ensuring the benefits", November 2020 https://www.feantsa.org/public/user/Resources/reports/Renovation_Wave_final_report.pdf

FEANTSA welcomes a strong call for Member States to address energy poverty through the implementation of mandatory energy performance standards

- FEANTSA welcomes the recognition of energy poverty and the requirement for Member States to roll out enabling and financing tools and monitor social impact, as specified in the explanatory memorandum² and demonstrated by the proposed new article 9.3 and article 15.12 (former article 10) stating that "Financial incentives shall target as a priority vulnerable households, people affected by energy poverty and people living in social housing, in line with Article 22 of Directive (EU) .../.... [recast EED]."
- FEANTSA also welcomes the right analysis of a potential impact of renovation on rent levels, and the consequent call to Member States to address it, as underlined by the new article 15.13, stating that "When providing financial incentives to owners of buildings or building units for the renovation of rented buildings or building units, Member States shall ensure that the financial incentives benefit both the owners and the tenants, in particular by providing rent support or by imposing caps on rent increases."

The European Commission proposal requires Member States to provide financial and social safeguards alongside the new standards. This is crucial to monitor and protect vulnerable households, particularly in the private residential sector, from potential rent increases or housing affordability problems. There is also a positive recognition of the split incentive³, and need to address it through rent support and rent increase cap.

1. A dramatic lack of financial support to Member States to reach their target in a socially fair approach

FEANTSA welcomes a regulatory approach but claims that it must be further targeted and narrowed to the priority target group to ensure adequate ambitious public funding of unfit housing reaching those most in need. According to the article 9 of the Treaty on the Functioning of the European Union (TFEU) "In defining and implementing its policies and activities, the Union shall take into account requirements linked to the (...) fight against social exclusion". While the minimum energy performance standards are a crucial tool to prioritise the worst-performing buildings and those who live in them, strong social safeguards are needed to prevent them from contributing to rising energy and housing costs.

While the EPBD reform lacks dedicated financial instruments, Member States need to allocate appropriate funding to ensure the implementation of strong social safeguards. Similarly, the European Commission proposal (new article 15.10) that Member States should not be allowed to subsidise fossil-fuel boilers as of 2027 (to encourage deployment of zero-emission heating systems) must go hand in hand with adequate support to lowest-income households as the costs of alternative heating systems such as heat pumps is significantly higher than the one of boilers powered by fossil fuels (between 120% to 280% higher, differing largely between Member States).

² "National building renovation plans will pay attention to monitoring the reduction of people affected by energy poverty and of population living in inadequate housing (e.g. leaking walls or roofs) or with inadequate thermal comfort conditions. The plans will present an overview of national policies and measures empowering and protecting vulnerable households, alleviating energy poverty and ensuring housing affordability."

³ "Split incentives are linked with cost recovery issues related to energy efficiency upgrade investments due to the failure of distributing effectively financial obligations and rewards of these investments between concerned actors. This can ultimately result in inaction from either actor's side (...)". See European Commission JRC Technical Report, Overcoming the split incentive barrier in the building sector:

The current EPBD reform presents a positive recognition of the issue of energy poverty, but without new tools and in a highly insufficient framework. It leaves the responsibility to Member States to deliver without the appropriate funding and with existing EU funding sources that are in competition for many uses.

While the European Commission declared that €150 billion from the EU budget would be available to implement the minimum energy performance standards between now and 2030⁴, there is no adequate funding dedicated to the renovation of worst-performing buildings⁵. Without dedicated targeted financial instruments and technical assistance, experts argue that the European Commission will miss its goal to at least double the speed of building renovation in Europe⁶.

Moreover, Member States need to implement appropriate financial measures to guarantee strong social safeguards, as detailed in the next section below.

2. FEANTSA's recommendations for a more realistic and just EPBD revision

The EPBD revision should rethink its funding and target more the energy poor households.

The EPBD should further narrow the priority upgrading of the stock to address first and foremost unfit housing of energy poor, through massive public funding. The proposed "Social Climate Fund" is insufficient to adequately accompany lowest-income groups through the transition. Adequate ambitious funding must be made available, through targeted earmarking of structural funds and the resilience and recovery package⁷.

- (1) A new **boosted and broadened Social Climate Fund** with more financial means, whose impact would be better assessed, implemented earlier and not financed by the extension of the Emission Trading System (as argued by FEANTSA) could help financing the revision of low-income households' buildings.
- (2) To guarantee a fair energy transition "leaving no one behind" as promised by the Commission, sufficient **targeted financing** needs to be secured by the Commission for hard-to-reach and at-risk households⁸. It needs to **make the right to decent housing for all an explicit goal** of the Renovation Wave and start with improving the living conditions of those in the most need. To do so, new funding could be made available by using the **European Central Bank's (ECB) "Targeted Long Term Refinancing Programme"** that allows the ECB to lend money to banks at a -1% interest rate, to home renovation⁹. This is an opportunity as it would be in line with the ECB's objective to increase its lending to "the real economy". This program would encourage banks to bring financial support for the most excluded through zero-interest loans and grants for renovating. In a second step, this would also allow governments to repurpose their own budgets and renovation programmes to prioritize public and social housing.

⁴ See European Commission: *Questions and Answers on the revision of the Energy Performance of Buildings Directive*: https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_6686

⁵ Finance comes from several sources, including the European Regional and Development Fund, the Cohesion Fund and the Recovery and Resilience Facility ("Renovate" flagships in the national recovery and resilience plans), and from the new Social Climate Fund (Source: European Commission).

⁶ See EURACTIV: *How the European Central Bank can unleash the building renovation wave?*: <https://www.euractiv.com/section/energy/opinion/how-the-european-central-bank-can-unleash-the-building-renovation-wave/>

⁷ More on alternative sources of funding in FEANTSA's position on the Social Climate Fund

⁸ See FEANTSA: *Fit for 55 package: a unique opportunity to achieve climate goals while tackling energy poverty and unfit housing*: <https://www.feantsa.org/en/press-release/2021/07/16/fit-for-55-package-a-unique-opportunity-to-achieve-climate-goals-while-tackling-energy-poverty-and-unfit-housing>

⁹ Ibid 5

- (3) To target the renovations for those who need them the most, the **residential sector** should be prioritized. More precisely, a **definition of “worst performing buildings”** should be ensured to prioritise the renovation of those- including damp, cold, owner-occupied homes, and other forms of inadequate housing, as referred to in the ETHOS transnational framework¹⁰. This would enable for instance renovation subsidies to be used to transform homeless shelters into zero emission Housing First buildings models.

Ambitious national policies can prevent the minimum energy performance from contributing to further rent increase.

(1) Member States shall support compliance with minimum energy performance standards by providing **funding targeting vulnerable households** such as lowest-income households, people who are facing energy poverty. This is in line with Article 22 of the proposal for a Directive of the European Parliament and of the Council on energy efficiency that requires Member States to implement energy efficiency improvement measures as a priority among vulnerable customers, people affected by energy poverty and, where applicable, people living in social housing, to alleviate energy poverty.

(2) As recommended by the European Commission, National building renovation plans should monitor the impact of the legislation change on people affected by energy poverty and on the population living in inadequate housing. The European Commission should carefully analyses these and promote good practices as well as name and shame Members States that fail to implement the new EPBD recast in a socially fair manner, protecting vulnerable households, alleviating energy poverty and ensuring housing affordability.

(3) Social mechanisms such as a **ban of renoviction, monitoring of rent increases**, and the **establishment of rent caps** after renovations should be required by the EPBD recast directive as well as promoted through peer review and best practices exchanges. This is the condition for the compatibility of the Commission proposal with the Principle 19 of the European Pillar of Social Rights (“Vulnerable people have the right to appropriate assistance and protection against forced eviction”) and the Article 34 of the EU Charter of Fundamental Rights (“the right to social and housing assistance so as to ensure a decent existence for all those who lack sufficient resources”)¹¹.

(4) Member States shall provide **technical and practical assistance** to the energy-poor and provide them with the necessary **knowledge and skills**, including through **one-stop-shops** which can ensure inclusivity. These should be run by trusted local actors and not be profit-driven¹².

(5) A better **impact analysis** of the EPBD implementation on vulnerable groups should be conducted, with a focus on the effects of minimum energy performance standards on rent levels and gentrification. This analysis could combine the effort of the EU building stock observatory and Energy Poverty Advisory Hub¹³.

(6) Finally, the Commission could impose that when minimum energy performance standards are implemented, a **percentage of the dwelling units are rented at affordable rent** corresponding to social housing, on the model of France where the law imposes a percentage of social housing in cities. The Commission could guide Member

¹⁰ ETHOS is the European Typology of Homelessness and Housing Exclusion
<https://www.feantsa.org/download/ethos2484215748748239888.pdf>

¹¹ See FEANTSA statement, *A Renovation Wave for Europe: Energy Efficiency for Whom?*:
<https://documentcloud.adobe.com/link/track?uri=urn:aaid:scds:US:28f066d2-82ee-4230-b4a4-df11b4315185>

¹² See EURACTIV: *Will the Renovation Wave leave Europe’s poorest on the shore?*:
<https://www.euractiv.com/section/energy-environment/opinion/will-the-renovation-wave-leave-europes-poorest-on-the-shore/>

¹³ Ibid 9

States in creating “**Social Rental Agencies**” that would cover renovations by public funds in exchange for a commitment from the owner to rent at a low rent for 15 years¹⁴. This is in line with Article 22 of the proposed Energy Efficiency Directive recast, that introduces an obligation for Member States to implement energy efficiency improvement measures as a priority among vulnerable customers, people affected by energy poverty and, where applicable, people living in social housing, to alleviate energy poverty. FEANTSA proposes that the targeting would concentrate on people living in unfit housing according to national definitions and households covered under the ETHOS framework.

Conclusion

As it currently stands, the text of the EPBD revision presents a high social risk, is not protecting adequately vulnerable groups, across the tenure spectrum: social housing, private rental market and small property owners are all at risk to suffer from increasing costs linked to the implementation of the EPBD as Member States have not been given appropriate tool or stringent constraint to ensure a positive social impact in the implementation of the EPBD revision.

¹⁴ Ibid 9