



## **All Party Urban Development Group**

*promoting sustainable development and urban renewal*

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### **Inquiry 4:**

### **CLIMATE CHANGE AND THE URBAN BUILT ENVIRONMENT**

### **Greening existing non-domestic buildings**

12 May 2008

Oral evidence

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**ALL PARTY URBAN DEVELOPMENT GROUP**

**MINUTES OF PROCEEDINGS**

at a

**PARLIAMENTARY HEARING**

held in

**Houses of Parliament, Committee Room 13**

on

**Monday 12 May 2008**

Before:

Members:

Mr Clive Betts (Chairman)  
Lord Best  
Lembit Öpik

(From the Shorthand Notes of:  
W B GURNEY & SONS LLP,  
Hope House,  
45 Great Peter Street  
London SW1P 3LT)

Witnesses: **MR PAUL KING**, Chief Executive, UK Green Building Council; **MR JON LOVELL**, Head of Sustainability, Drivers Jonas; **DR SANDRA GOMEZ**, Technical Director, Energy & Sustainability Group, CB Richard Ellis; and **MR ALLAN JONES**, Chief Executive Officer, London Climate Change Agency, gave evidence.

CHAIRMAN: Perhaps we can make a start and welcome our witnesses and everybody else. We have a very full house this afternoon so it is obviously a subject that has captured the wider imagination. I am Clive Betts, MP for Sheffield, Attercliffe, and I am Chairman of the All Party Urban Development Group. With me is Lord Richard Best on my right and, although you cannot see him at present, he will be here shortly, Nick Raynsford MP as well. The All Party Group is literally what it says: it is a group of parliamentarians from both the House of Commons and the House of Lords representing all the major parties and cross-benches as well from the House of Lords, so we come at this from a non-party political viewpoint and we have had now a number of inquires.

This is clearly a very topical one in that the whole issue of climate change is one which I think interests and concerns many members of the public, and certainly many parliamentarians, and of course the Government. We have got the Climate Change Bill in the process of being considered at present and the Energy Bill, so it is clearly an issue which Parliament is looking at, but when we considered what our inquiry should be about, we recognised that although there was a general importance to the issue of climate change so far we were not aware of any group within Parliament having looked at the issue of climate change and the consequences and what we can do about it in terms of non-domestic buildings. The House of Commons Select on Communities and Local Government, of which I am a member, has just looked at the question of energy conservation and energy use in existing housing but, as far as I am aware, no-one has looked at the issue of energy use and energy conservation in non-domestic buildings, and that is what we are going to do today.

We have got four witnesses to begin with in front of us. Perhaps I could ask you to say who you are so everyone in the room then knows who you are and where you come from.

MR JONES: Allan Jones, Chief Executive Officer of the London Climate Change Agency.

DR GOMEZ: Dr Sandra Gomez, Technical Director of the Energy & Sustainability Group within CB Richard Ellis.

MR LOVELL: Jon Lovell, Head of Sustainability for Drivers Jonas.

MR KING: Paul King, Chief Executive Officer of the UK Green Building Council.

CHAIRMAN: You are all very welcome. Just a general question to begin with, and perhaps Paul King can begin and just say what are the main challenges that government faces to encourage a reduction in the environmental footprint in the existing stock of commercial buildings. It is an issue which I am sure most people will see as important but perhaps there is not an obvious feeling that a great deal is being done about it at present.

MR KING: I think the biggest challenge for government in terms of existing buildings is for it to ask what levers does it have at its disposal in terms of affecting existing buildings. It is a lot clearer what government can do in respect of new buildings because obviously it has the planning system and it has building regulations and other ways of directly affecting the performance of the buildings. It is much harder to tackle buildings that already are standing. I think if we look across the piece, there are something like 1.8 million non-domestic buildings in the country. They contribute round about 18 per cent of our domestic carbon emissions compared with something like 27 per cent from the existing housing stock. They obviously have a very important part to play therefore. I think it is essential therefore that government does come to terms with what it can contribute and how it can bring about change.

One of the greatest challenges that we have found - and the Green Building Council exists as an industry-led campaign for a sustainable built environment - is we are seeking with our members who are drawn from right across the industry, including many clients, property owners and property developers, to find ways of reducing the environmental impacts of our buildings, new and existing. One of the biggest challenges is in getting some reliable data about how our buildings are really performing. There is very little reliable data available in this area and we need to look at the systems within which we can collect data about the buildings we have, how they perform and therefore how they could be improved. I think this is a process which government can make a significant contribution towards and has already begun that process.

The introduction of the Energy Performance Certificates, the introduction of the DEC's, or the Display Energy Certificates, to be rolled out for public buildings, we think should be extended to all existing non-domestic buildings so that we get an accurate reflection of how buildings are designed to perform, what their asset rating is in terms of energy performance, and how that compares with their actual performance, and we think those two ingredients are vital in better understanding how our buildings perform, how they can be improved and what sort of incentives and other mechanisms could be introduced

to enable that change to take place.

CHAIRMAN: Would anybody else like to pick the issue up or comment on it or is everyone in general agreement?

LORD BEST: Can I just pursue the factual position just to be absolutely clear. The Display Energy Certificates relate only to public buildings and they do not even come in for public buildings until towards the end of next year; is that right?

MR KING: Yes.

LORD BEST: Just explain the Government's plan for Energy Performance Certificates. They are to be introduced when and what do they cover and what data will they be bound to reveal for the rest of us?

MR KING: They are being rolled out over the next few months, as indeed the equivalent EPCs for domestic buildings were rolled out, according to the size of the buildings. That will give us an indication of how a building is designed to perform so the difference between the Energy Performance Certificate and the Display Energy Certificate is how good it was designed to perform on the basis of what you can see and what was on paper, and how much carbon it should emit, and the DEC will show the reality of energy use.

LORD BEST: Right and that will cover existing buildings across the piece, not just new?

MR KING: At the moment the plan is only to roll out the DEC's to public buildings. The UK Green Building Council believes that these should be rolled out to all non-domestic buildings.

LORD BEST: Quite. What are the arguments against rolling it out to cover the private sector as well?

DR GOMEZ: It may be for me to interrupt at this point because it is useful to explain that both the EPCs and the DEC's are a direct consequence of the implementation of a European Directive on UK legislation, so it is basically that that has forced the Government to change, for instance the change in the building regulations that happened in 2006 and the introduction of EPCs and DEC's. In answer to your question, it is because the Directive suggested that it would be introducing DEC's mainly for public buildings and not for all buildings.

LORD BEST: Because that is what in Europe we will have to do as part of European law?

DR GOMEZ: That is the minimum requirement. There is no compulsion

to extend it but that is certainly how it started.

LORD BEST: Quite. In the domestic market we are not simply slavishly following what happens in Europe; we are deciding for ourselves what kind of energy ratings requirements for certificates proceed.

DR GOMEZ: No, the Directive applies to all buildings, both domestic and non-domestic.

LORD BEST: So we have got here in terms of collecting data and understanding what the current position is a finite, concrete proposal, we have a system that is going to apply in public buildings; why should it not apply to all commercial buildings. From the private sector is that a hassle to be recommending and proposing?

MR LOVELL: I do not think it is, in so much that the process of procuring and gathering the information necessary to generate the Display Energy Certificate is relatively simple compared to that for an Energy Performance Certificate. Moreover, if the private sector working with government is serious about tackling the performance of existing buildings, understanding how those buildings actually perform is essential. That is the one key missing ingredient from Energy Performance Certificates. So as an energy management tool Display Energy Certificates I would say are much more helpful than the Energy Performance Certificates.

CHAIRMAN: Is there a danger that we get an exercise here where people are ticking boxes and saying, "I have got my certificate, I will pin it on my wall," or the Energy Performance Certificate, and we know how the building is supposed to work and then nothing much happens?

MR LOVELL: I think that is absolutely correct and that is why there is no silver bullet, so to speak, it is a clichéd expression but there is no silver bullet to this problem and there are a whole host of issues which government working with the industry does need to address. Speaking from the investors' side of the industry, I would say there are principally five fairly fundamental barriers as to why we have not seen a greater improvement in performance so far and the availability of consistent and comparable information about how buildings are used and operated at a building and portfolio level is only one of those five issues.

CHAIRMAN: And the other four?

MR LOVELL: I would say there are clearly some physical limitations associated with buildings, and they exist to varying extents in different locations and in different contexts, so for example it might be physically and therefore financially more difficult to tackle the energy performance of existing buildings

which have a significant heritage value in a dense urban location. Over and above that, I think that it is quite genuine to say that there remains a persistent lack of awareness and buy-in within much of the investment sector to this issue at large. I really do not think the Government should under-estimate the significance or the extent of that. It is perhaps misleading to look at the number of corporate statements, both in the public sector and at government level, and think that those reflect a substantial shift in thinking within the investment sector. The difficulty is that those corporate policies and commitments do not necessarily translate into what is happening at the coalface, and there are a number of issues associated with this, not least the lack of robust systems at the organisational level to turn that corporate policy into practice. There are implications in terms of fiduciary duty in that respect as well. The main issue for investors is the need to secure either protected or improved returns on their investment and in order to secure that there has to be confidence that there is a demand on the occupier side of the market for improved energy performance. If I could say that there was one overarching challenge for government, it would be to transcend where the costs and benefits lie between investor and occupier. Again, I do not think that challenge should be under-estimated either. The issue of robust, consistent and comparable data clearly relates to that.

Finally, I would say that at the moment there is a fairly inconsistent and imbalanced fiscal and regulatory framework and, in my view, speaking on behalf of a number of people I have spoken to in the course of the last week about this inquiry, there really is an urgent demand to look at how fiscal incentivisation can be balanced with regulatory drivers in a way in which revenue to the Exchequer is cost neutral. I would like to emphasise that point because of the lack of buy-in in some parts of the sector it is crucial that this is not seen as an agenda for stealth taxing or green taxing. It has to work, and can work in my view, in a very effective way on a cost-neutral basis across the piece.

MR KING: Just coming back, and I agree with many of the points that Jon has just made, but I would hate us to move on from the point about Energy Performance Certificates and Display Energy Certificates and to suggest that they are not really an important part of this. Many of the other mechanisms that Jon has described actually hinge on that basic information. Fundamentally, we believe that if you cannot measure it effectively you will not manage it effectively in terms of carbon reductions in existing buildings. The reason that it is important to have both the Energy Performance Certificate and the Display Energy Certificate is that there are many building types which can be quite generic and can be designed in a certain way but then used in quite different ways and so they can be designed to a level of energy efficiency but depending on their use their actual energy consumption will vary very widely. If you build a building and you suddenly install lots of IT equipment or lots of refrigeration equipment, clearly the energy profile will be radically different. If you do not have the Energy Performance Certificate as well as the actual performance of a building you will not know whether you have started with an efficient building. You need both of

those pieces of information. We are finding - and I think it supports some of the other points Jon made - from our sister organisations, green building councils in other parts of the world such as America and Australia, that there is growing evidence of where reliable labels exist to demonstrate more energy-efficient buildings that is turning into perceived higher asset value. So for example in markets such as the US, where currently there is a major property downturn there is emerging evidence that buildings that carry a label showing a high level of energy efficiency are to some extent bucking the trend.

LORD BEST: So it is a labelling point.

CHAIRMAN: In terms of two key issues that you probably want to come on to, one is the financial incentives or financial tax situation and the other one is this relationship between investors and occupiers in terms of the issue. I wonder if we could pick those two up. You talked about a revenue-neutral position where maybe there could be some incentives and some taxes balancing each other so that investors and occupiers indeed go down in the right direction. Any ideas specifically about what this might entail?

MR JONES: I was going to cover this under the question you were going to ask me but I am happy to take it now. We have recognised that problem for some time in London and we recognise that to reduce CO<sub>2</sub> emissions by 60 per cent by 2025 is a big challenge, it is not going to be solved by Energy Performance Certificates or any raft of minor, or comparatively minor measures, that you care to think of. The time in front of us is so short now we have to start delivering projects and that is the nature of the Climate Change Agency. One of those projects is the Better Buildings Partnership which deals with the issue of existing commercial buildings, which in London accounts for 33 per cent of CO<sub>2</sub> emissions, much higher than the UK as a whole for obvious reasons, it is the capital city. That has been established with the major property owners and the founding members are British Land, Grosvenor Estates, Hammerson, Hermes, LandSecurities, Transport for London and ourselves. They are committed to improving sustainability of buildings and to contributions significantly to the 60 per cent reduction in CO<sub>2</sub> emissions target.

The reason why these companies, which are among the largest developers and the largest property owners in the UK, let alone in London, are doing so is two-fold. One is that the organisations themselves want to be doing something in tackling climate change and want to be seen to be tackling climate change, and also because they are big corporate entities, they have big corporate tenants, and big corporate tenants are now pushing them, "How green is your building? What is the performance of your building?" so Display Energy Certificate or not, the people that are representing Marks & Spencer's, Sainsbury's and local authorities that are wishing to occupy buildings are saying, "What is the performance of the building?" and they are beginning to make value judgments as to which buildings they occupy and how they actually deal with

them. The LCCA, the London Development Agency and TfL took the same decision when we occupied the Palestra Building. It was the most energy-efficient building we could find at the time and we did a deal with the developer to enable us to put our own renewable energy, and currently under construction is a big tri-generation system, so this is the kind of thing that I mean about getting on and doing it. I think the public sector has a very big role to play there, both local government, regional government and also central government because if the public sector (which occupy a lot of these big commercial buildings) say, "We are not interested in occupying your building if it has got a poor rating," what you are doing is creating a two-tier market, and companies like British Land and LandSecurities have already seen that as part of their business plan to move forward in that. Since the Better Buildings Partnership was incorporated as a company, only in April, Canary Wharf, Legal & General, Quintain Estates and Workspace Group have agreed to join that and we have a list of other big organisations moving forward, so notwithstanding what anybody else might say, the more advanced business community is already moving forward in this area and I think, if anything, these sorts of things are examples that ought to be publicised more widely to other cities around the UK as well as the regions.

LORD BEST: But is it not likely to be the case that these are big flagship schemes, these are big prestigious companies and they represent a very visible, but tiny part of the total sector?

MR JONES: No the reason why we have a Better Buildings Partnership and why it was a key part of one of the programmes we implemented is that you can probably cover most of the emissions in London from about 20 property owners, and so that is what we did, we set out to identify those big, major 20 property owners and to get them on board with the Better Buildings Partnership, in the belief that if you get the big players beginning to move, a lot of the smaller players will have to follow because otherwise they are going to find it difficult to let their properties. It does not mean that their properties are going to be worth any more but what it will do is avoid prolonged void periods and that is much more expensive to property owners.

DR GOMEZ: I would like to echo a bit of that because it is not just in terms of capturing only the big players, as it were, although they represent a big proportion of the market, but certainly in our experience this includes the obvious key issue of climate change which is a global problem. The kind of clients we have are global corporate clients and even if they are a minority to start with they do have a pull across the whole of the industry where they operate, and of course it is true to say that they are the leaders of the pack, the pack will have to follow, either for economic reasons or peer reasons, in most cases for both, so we are seeking to advise corporate clients that ask us, "How do I go about procuring greener buildings? How do I measure green buildings?" so that effectively, certainly in the UK, we can finally break the traditional circle of blame that has been always highlighted as one of the reasons why we do not procure

better buildings, let alone greener buildings, which is there is no demand, then consequently there is no offer, consequently there is no investment. I think that if one of them had broken the circle it is the potential tenant - and I would point out that two of the main players in the industry have broken this circle of blame - one is the demand from the occupiers' point of view, as certain occupiers want to be seen as green and want to prove it as well, but also from the developers who either through the planning regulations or just keeping up with innovation are fulfilling this issue. Once the circle is broken then the investment community hopefully will then start to see returns and benefits.

MR LOVELL: I cannot disagree with the significance and the potential of initiatives such as the Better Buildings Partnership, and I would be the first to applaud that, however, I would like to offer a slight reality check when we are looking at the performance of existing non-domestic stock. I will not go into naming names but some of the flagship, investor/developer organisations that have already been referred to are doing a huge amount over which they have direct control in terms of improving the performance of their existing assets. However, what is proving very difficult is tackling the performance of those elements of their assets which are occupied by tenants, and that can be as significant as about 98 per cent of the overall performance ratio of the assets.

THE CHAIRMAN: Why is that?

MR LOVELL: That is because at the moment there is an inherent culture within the sector, in my view, where there is a degree of perhaps distrust between investors, landlords and occupiers, but I would also add that I think there are signs that that is changing, and I think the reason that is changing is because we are beginning to see the emergence of regulatory concepts, albeit some of which are poorly designed, and I might refer specifically to the Carbon Reduction Commitment as one example, but the emergence of those types of regulatory concepts are beginning to stimulate an understanding that collaboration between landlord and tenant is clearly a good thing and the only way in which we can go about improving the performance of those existing assets. However, we are at a very, very early stage and people will often refer to the progress of green leases for example in other countries such as Australia, and perhaps even to some extent Canada, but the culture of the property industry in the UK is different and the amount of reticence regarding green leases and other such mechanisms to overcome the separation of interests between landlord and tenant is still fairly persistent.

MR JONES: I was just going to add there is a practical example of what the Better Buildings Partnership is doing, you have this perennial problem where, by and large, the development is let out on a full repairing lease basis so if the landlord can retrofit energy efficiency or decentralised energy in the landlord parts, and in a shopping complex that will be the common areas, but of course that is only a small fraction of a big shopping complex or big office block

arrangement and how do you actually get the landlord to invest in retrofits in the tenanted part of the development where it is the tenant that gets the benefit of the energy savings, and so a key part of cracking that problem, obviously if someone is going to buy in a building for the first time or the lease is up for renewal, you can begin to introduce green leasing, but we cannot rely on just the new ones alone. What we are finding here is that the alliance between the tenants that want to occupy a green building and the landlords that want to provide a green building really hinges around what can they offer the tenant. For example, and I am not saying that necessarily any particular organisation is doing this, you could offer, say, five or ten per cent of the savings to allow the landlord to come in and retrofit or to connect the whole complex up to a big tri-generation scheme for example, sufficient incentive to enable the occupier to think, "It's no skin off my nose if you are prepared to spend your money and if I am going to get some benefit, it might be worthwhile putting up with the hassle of having the ceiling tiles down," and so on, so mechanisms like that can be made to happen; where there is a will there is a way.

LORD BEST: Taking the parallel of the private rented sector for domestic properties, where the chances of persuading a landlord to put in lots of insulation or a much more efficient heating system when the only beneficiary is the tenant, we do not really have a mechanism. There is your green lease; is there hope here?

MR JONES: I think so but if we just relied on the renewal of leases, bearing in mind the 2025 date is not that many years away, we actually have to go much further than that, we have to also tackle existing leases, we have to set up a project arrangement between the landlord and the tenant sufficient that it will incentivise the tenant to allow the works to take place, and that is the kind of thing that I have been talking about. You cannot just rely on one or two mechanisms here. We have to go across a broad front. I have just mentioned the Better Buildings Partnership but when you come to ask my question a bit later on, I can go into a bit greater depth as to how this links up.

MR LOVELL: I think again we should be cautious about looking for silver bullets. Green leases in themselves will not tackle the issue of investors not having confidence in expending a significant amount of capital to benefit the tenant that is currently occupying a building, bearing in mind that the tenancy periods throughout the sector are shortening as a trend because of the need for greater flexibility at the tenant level. That benefit in terms of reduced revenue cost for example might be passed even further down the chain and therefore muddy the waters, so to speak, so we do have to somehow tackle incentivising that capital expenditure, and this becomes all the more complicated where you have multi-let buildings, for example where the impact upon the normal running of the tenants' businesses can be quite disruptive. You also need to ensure that all of those tenants within that building are signed up to the need for that investment, the need for that disruption or to accept additional clauses in a lease

which might, I guess, protect that investment on the part of the landlord.

LORD BEST: Would it normally be the case in a lease that if you have got an office block with several different tenants that any single tenant could block a major project to increase energy efficiency for the whole? Is that normally the legal position?

MR JONES: Potentially that could happen; it depends on the nature of the lease. Quite often in very large buildings occupiers are very large tenants so very often you are dealing with one or two people to deliver that, so it is much more likely that that would happen. I think what we are beginning to see, certainly in London, is a differentiation in the market between those landlords that are prepared to move forward with this and those that are just prepared to stay where they are. If we are successful in this, by its very nature, we will have to draw in the landlords because they will lose out on it because tenants are becoming increasingly more aware about climate change. Their own shareholders, their board are pressing, we are seeing this with number of people coming to see us about this on both the landlord and the tenant side about how they can actually turn this around. It is quite right, there are some major obstacles here, not least the actual lease arrangement between the landlord and the tenant. If both parties want to overcome this then it can be overcome and that is one of the key parts of what we are doing in the Better Buildings Partnership. I am not too bothered that we have only got a small number of large players that are prepared to do this because once that market moves it will draw the rest of the market.

MR KING: Just to support a couple of points that have already been made. One of the Green Building Council members, Hammerson, have fairly recently introduced a green lease based on some of the experience in Australia, and their experience so far is that of 25 tenants they have introduced, two (and I think only one) have really queried it. It does contain clauses for the tenant to actually work with them as a landlord together to seek energy improvements to the buildings which I think is just a small start, so I would not want to overplay it, as Jon said, but I think it is an interesting start. Another point worth underlining is that while your question focuses of course on the commercial buildings, I think given that a very high proportion, perhaps up to 30 per cent, of these buildings are procured through the public sector, the opportunity for government, for the public sector to exert leverage here is very significant.

CHAIRMAN: Does that happen at present?

MR KING: Not sufficiently. Higher standards are set and also higher standards are set for procurement of new buildings in terms of the BREEAM excellent levels and so on. However, previous studies, such as a National Audit Office report, have highlighted a failure to follow through on those requirements and those standards. Just a small point but I think an important one, which goes

back to multi-tenanted buildings, recently the Green Building Council organised a visit to look at some retrofit and some non-domestic passive house buildings in Germany and one of the very simple things that struck us there was that it was commonplace in multi-tenanted buildings for each tenant to have his or own meter of energy use. That is not commonplace here. Obviously if you are in a multi-tenanted building, if you can see and have greater control over your own energy usage, that provides a greater incentive.

DR GOMEZ: On that, Chairman, it is partially what I have already prepared for the specific answer to my question but nevertheless it is appropriate that the information does follow those two points here. Green leases are a much more established mechanism in other parts of the world, particularly in Australia, but there are two issues there that we need to contrast and compare with the situation here, both of which can be addressed positively. The first one is that they are based on very transparent targets so that both the landlord and the occupier can sign up to the same codes, while here, as we were discussing earlier in today's presentation, the EPCs and DECs are yet to be a commonplace occurrence. When you have that for a number of years, and you have buildings rated and that is transparent and visible to everybody, then you can achieve a target that you can all be in common agreement to pursue. The other issue, just picking up on the issue of the government estate and the importance of government as a leader, again that was certainly the case in Australia. The reason why green leases as well as the ratings scheme took over quite suddenly is because the government estate itself is a big client and it said, "We are only going to procure rated buildings," and a few years later, "We are only going to sign green leases," to the owner/occupiers, and consequently they dragged the whole of the industry with them in terms of both demand and market share, and I think that of course is yet to happen here.

CHAIRMAN: That is one thing you have clearly identified there of things that can be done and things that government can do as part of that. Can we go on to the issue of what else government can do in financial incentives, taxes (revenue-neutral hopefully, as was said by Jon a little earlier). What specific things can Government do to encourage and to prod the industry along?

MR LOVELL: I do not wish to be prescriptive over the detail and mechanisms and I know that urging the Treasury to do particular things is often the biggest challenge that government as a broader machine faces in trying to take some of these things forward, but there are, I would have thought, a number of fairly significant opportunities that government might wish to look at, whether that is aligning stamp duty and land tax with asset ratings, particularly if we go down the route of rolling out Display Energy Certificates beyond simply public buildings and the extension of enhanced capital allowances to incentivise capital expenditure beyond those generally internal service-related products that currently exist to include products and technologies which tackle the performance of the building envelope. It is quite a crude example but it is commonly referred

to - and I would not wish to lose sight of it here - that at the moment there is no VAT exemption for refurbishment materials yet there is on new-build materials, so you perhaps swing the balance of favour, when looking at options for either redevelopment or refurbishment, in favour of new development in some cases, particularly because we have not got that robust evidence in place to assess the carbon implications of those two options. Indeed at the local level, I do not know if this is something that Allan may wish to comment on, but aligning local business rates to annual incremental changes in the operational rating achieved at a building level again might well be an option.

CHAIRMAN: Did you want to come in on that?

MR JONES: Obviously taxation is something that will need to be agreed between the Treasury and the local authorities concerned, but I think we know what to do, we know how to actually reduce CO<sub>2</sub> emissions in a city like London. Additional drivers like that that actually make people participate would be a big benefit. On new development, the London Plan is quite clear about the amount of decentralised energy, renewable and so on, but new development only represents one per cent of development a year so we are never going to achieve our climate change targets by entirely focusing on new development, and there is nothing at the moment equivalent in place for existing development. You can refurbish an existing office block to the same poor standard as it was before. There is no driver to make it any better. In London we know for example from the work we have done that 75 per cent of London's CO<sub>2</sub> emissions is centralised energy, and we are not going to achieve big macro decentralised energy systems purely upon the back of lots of small new development. We have to bring in existing development with new development. Whether the catalyst is the new development that creates the space for an energy centre or whether a major refurbishment of existing development creates the opportunity to connect new developments with it.

We have got to stop looking at sites site-by-site and we have got to start looking at zones, hence the low-carbon zones which is a concept that was developed here in London about connecting up these systems together, it is more economical for the government and will make it much easier for both new and existing developers to connect to such systems and work together as a zone as opposed to individual sites. You can further decarbonise that zone by retrofitting energy efficiency. That will by its nature include the local residential community as well as the non-residential and again you have got to stop looking at these things in isolated pockets. Communities are communities; wherever people live you have offices, you have shops, you have hospitals, and you have schools. That is how you get your high-level sustainable energy profile. That is why it is on such a big scale in Scandinavia. You have only got to go across to Denmark and Sweden and see this is exactly what they have done. They do not differentiate between housing and non-housing, new development and existing development, it is all connected. Malmö for example has 97 per cent of its

buildings, residential and non-residential, connected to an efficient energy system and in comparison in the UK we are woefully behind that at the moment. That was started in the 1960s with particular effort by both city government and central government to just do things that way. There is no reason why it should not happen here.

CHAIRMAN: At local level do you need more powers from central government allowing you to do that?

MR JONES: That is an easy call but I think lots of local authorities just need prodding from the rear rather than more power because I think local government does actually have powers to do the same thing that London is doing. London chooses to do it through choice. As you know there is a new climate change duty. A duty is different to a power: a politician can have a power to do something but it does not necessarily have to do anything. A duty means that you have to do something, so a simple mechanism could be to have a climate change duty on local authorities, and instead of parking it in the corner with some sort of strategy, actually get on and deliver things and, as we have already heard, the public sector could be a big driver to demanding greener buildings to occupy. It could incorporate as part of the wider planning system both new and existing development, bringing in its housing and non-housing responsibilities, and actually move this forward a lot quicker than is currently being discussed, because at the moment we have a lot of discussion, a lot of policies and a lot of strategies but not many people actually doing things on the ground. If London is a good example, and whoever manages London, of how to roll this out and how to maximise this, then you need something like a climate change duty, you need some of the other things that have been mentioned here today to incentivise both landlords and tenants to be involved in this process whether it is connecting to a decentralised energy system or retrofitting energy efficiency, and that will enable us to look at cities and urban areas in particular in a much more holistic way than we are currently used to dealing with.

LORD BEST: There is a dilemma in terms of local authorities being made to do things they do not want to do. We are into the era of devolution, decentralisation, local autonomy, all this stuff, and if people do not want to do something, by and large, now the trend is to say, "That is what they want to do; that is how it should be." You are really saying - and I have got every sympathy with it - the people who won the prizes, and I can remember going to award ceremonies for local authorities who had done great things four years ago, who else has now picked up and run with some of those same bright ideas for energy saving? We do have this dilemma. Do we want to allow local authorities to do their own thing or do we want to compel or make them behave like the best?

MR JONES: You do have a choice and I think timescale perhaps is the driver here. You could have a situation where local authorities voluntarily sought a climate change duty as London did. It was not imposed on London; London

actually sought their climate change duty, but then you have to ask yourself if we are really serious about reducing CO<sub>2</sub> emissions by 60 per cent what is the timescale that is left to us to tackle that. Many local authorities have been subjected in recent years to climate change events and big impacts on their local environment, only last year in the Thames Valley and Gloucestershire, those sorts of places, and we have seen flooding up in Hull, down on the South Coast, and excessive heat waves in 2006 and 2003. We can carry on pretending this is not happening, pretending that we do not need to do anything to tackle that or we can take measures to actually do that. Whether local government generally is in a position, as London is, to voluntarily seek to have a climate change duty and some benefits to go with that, in other words incentives that Government could give to make local authorities voluntarily seek that duty, or whether it is something that is imposed really depends on how much time you think you have got left to tackle climate change and avoid 450 parts per million runaway climate change and those issues, which is something that needs to be discussed and debated.

CHAIRMAN: Lembit Öpik has joined us.

MR ÖPIK: I am here until 3.50 when I believe there is something about embryology. You get to the heart of the matter with what you have just said. There are some of us who think that the oil price will make this happen because the legislation is too politically unpalatable for any government to enforce. What is your view?

MR JONES: I think one of the things that goes with climate change of course is that whilst we are busy burning fossil fuels and creating CO<sub>2</sub> we are actually depleting a non-renewable resource, and so fossil fuel prices will rise which will begin with a bit of a nutcracker; you have got the desire to actually tackle climate change and at the same time at the moment increased costs of fossil fuel energy, but there will come a time when there will be a shortage of it (and we have certainly seen in this country not that long ago what happens when oil is not delivered at the petrol pumps for about a week or so) this actually becomes an issue not just about climate change but also about security of supply, where our future is. I do not think we have got that many years away before these very difficult tasks need to be tackled. You will see in the *Evening Standard* tonight the huge price rises in gas for example, and you will have seen that in the press today, on top of the prices that have already been announced. Gas is linked to oil prices and there are those that think that oil has already peaked. This is going to become an issue and it is going to affect our economy in the end. It is going to affect our economy as to where our fuel comes from, how expensive it is, and whether we have got enough of it to run our services.

MR ÖPIK: In which case I would ask those of you who wish to comment what you think is going to be the most likely driver to get us closer towards a zero carbon Britain: is it going to be government legislation; is it going to be a

favourable tax regime; or is it going to be the cost of fossil fuels?

MR LOVELL: I completely agree with Allan but I think this runs into the issue of timescales and the reality of the situation is that whilst energy prices in themselves are rising markedly, and that affects individual consumers in a very acute way, at the institutional level, when you look at how much it costs to run a building energy costs are a small percentage of the overall costs, often in the realms of one to two per cent or sometimes even less, so rising energy costs in the short term in themselves are unlikely to be a sufficient driver by any stretch of the imagination. What I would not like to do, in response to your question, directly, is to look at government regulation and fiscal incentivisation in two separate camps. I think they can in quite a sophisticated way be brought together and I think that in the short term doing both of those two things together is going to have by far the greatest impact because if we are looking ten, 20, 30 years down the line then perhaps security of supply and pricing become much more important.

CHAIRMAN: From a Treasury point of view, they have got to be certain that if they are going to give fiscal incentives and hand money over, they are going to get something for it. There are lots of people who would be persuaded and other people would say, "We would have done it away but thanks very much for paying for the bathroom."

MR LOVELL: This comes back to the issue of measurement of performance in a consistent way so they can track the return on their investment in terms of how that has directly attributed to the enhanced performance of buildings from an energy and from a wider sustainability perspective. Let us not lose sight of the fact that carbon and energy are one part of a broader holistic equation. I have lost my thread, could you repeat the question?

LORD BEST: I think the point you were making that energy costs are such a small proportion of the turnover, this is quite different from the domestic market, is it not, nearly everybody worries about the fuel bills that sooner or later that is going to be a hassle. For illustrative purposes, I went to Clifford Chance, Solicitors, the other day, a great big building in Canary Wharf, 30 storeys high, lit up like a Christmas tree, my God, you could light London from this thing. Presumably Clifford Chance Solicitors' electricity bills do not feature.

DR GOMEZ: Can I pitch in at this point because I think the two comments actually relate. I do not think there is a single answer; I do not think it is either/or. I think that is where we can potentially fool ourselves. We should not say all we need is legislation because that is clearly not the case and in fact we had some members of the industry that are very proactive, for their own reasons, it could be just PR, but that is as valid a reason as any other market reason, so I think we need to combine all of these. There is a need for clarity of incentives not just for additional incentives. I would like to echo the fact, and it is one of my points in

my answer to the question why people do not invest in these things, that it is because people sometimes are unaware of the tools that they already have at their disposal. There are a lot of people that are not aware of ECAs and how to use them and how to capitalise on them, so the fact that they are there as an incentive does not mean there is any change in the market or transformation of the market.

There is a need for legislation but there is also a need for monitoring that legislation - another point I was going to make - to check. Both on the issue of sub-metering but also on the issue of local authorities; the two things are connected. It is no good having wonderful regulations which really are leading us on the right path of a lower carbon economy, if not zero carbon, if nobody checks afterwards if the building was built as designed, or even refurbished, and I would like to disagree with what Allan said that refurbishment is not part of the building regulation and it is not checked. Actually for major refurbishments to comply with building regulations, they have to be better in some cases than new build. The issue is not so much the legislation in that case but is anybody checking that is the case, do we have the manpower and the technical ability of the building control officers or their deputies to check that the buildings are according to what they promised to be. That mechanism is already in place so I would echo all this issue about not just what we have but to be aware that there is a huge lack of education at all levels, and that includes from the highest corporate clients, which is partially what we do as part of our business, to the smaller housing developer, of what can be done, what needs to be done, and also how to inform what is already there, let alone think of new schemes that need to be done.

MR KING: I just want to come back on this point about whether or not energy prices are going to be a sufficient driver in the short to medium term, which is my own question, and I think clearly in the last two or three years the main driver for getting big and high-profile clients to be taking these issues more and more seriously has been corporate and social responsibility, not cutting the energy bills. The energy bills in most of these companies are not large enough to turn up as an agenda item in the board room. However corporate and social responsibility is, and I have heard from people in those circumstances that there is obviously a nice feed back loop there in terms of the discussion around how should we be behaving, how should we be reducing our carbon footprint, and let us factor into that the way in which we run our buildings, what building we occupy and by the way, there is a nice benefit here because we are going to save money in terms of our running costs as well. Again, I come back to this point about the value of having reliable labels on buildings. I do think particularly at a time such as we have at the moment with the so-called credit crunch and a certain amount of economic doom and gloom, if the chief executive walks into his building, walks past the sign on the door that says his building is either a badly performing building or it is a poorly designed building or it is performing badly he will ask the question, "Why are we wasting money on top of everything else on a poorly

performing building?” I think the roll-out of those regulatory steps lead to an increasing awareness of the fact that the future trajectory of government regulation is towards better performing buildings and therefore investors are increasingly taking a long-term view and saying what is going to be the asset value of our property portfolio in a few years’ time when there is a much higher price on carbon and people are beginning to think further ahead, and thinking of these as material considerations in terms of future property values?

CHAIRMAN: As a final summing up, is there anything else in just 30 seconds anyone wants to say briefly to encapsulate what you think we need to do.

MR JONES: I think that is right because I have had people come to me where their energy bills represent a few per cent of their total operating cost, so why should they invest in energy efficiency; they will just change their mainframe computer or change their staffing arrangement but now they come and say, “CSR: we have got to show the board what is happening in climate change,” and if we turn that coin over, that is one of the cheapest ways of delivering the CSR objectives. The biggest driver here is not how much the energy costs but ending up with empty buildings and this is where the tenants can drive that. The public sector is a large part of that, whether it is central government, regional government or local government, and certain private sector big businesses are now saying that. That is the biggest driver because if you have got an office building or shopping centre with lots of voids it is costing you a small fortune.

DR GOMEZ: Just to echo that because I mentioned it earlier that the government estate has a huge role to play in driving this forward and joining the leaders of the private sector in making sure that the mechanisms, green leases for instance, are in place and the things Paul is advocating. If we have transparency of the results of EPCs and DECAs, that could be a mechanism to check buildings. As far as we know from the current statement from the Government, they are unwilling, no matter how sanitised the information, to publicise the information so those building owners who have a good rating will be more than happy to display that in the lobbies and I am afraid that those who are not would probably not be seen by the CEO because they are not compelled to show it, so we need to combine the two.

MR LOVELL: I would support that transparency is key, particularly from the point of view of promoting competitiveness which I think is central to this agenda, and just to rediscover the thread that I lost earlier in terms of the Treasury being sure that it is getting something back from fiscal incentives is to match that at the other end of the spectrum via fiscal penalties, so that you match both ends.

CHAIRMAN: Thank you all very much indeed. That was very interesting.

Witnesses: **MR DAVID VINCENT**, Director of Policy, Carbon Trust; **MS HILARY REID EVANS**, Head of Sustainability Initiatives, Quintain Estates and Development plc; **MR BILL WRIGHT**, Energy and Environment Manager, John Lewis Partnership; and **MR RICHARD ISAAC**, Environmental Policy Unit, Bradford City Council, gave evidence.

CHAIRMAN: Thank you very much for coming along to give evidence this afternoon. You may or may not have been in at the beginning but I am Clive Betts MP, Chairman of the Group, and Lord Richard Best and Lembit Öpik MP are two members of the group. Lembit has got to go fairly shortly but thank you for coming. Perhaps you could begin by you saying who you are and where you come from

MR ISAAC: Richard Isaac, Policy Officer, Eco Management and Audit Scheme (EMAS) for Bradford Council.

MR WRIGHT: I am Bill Wright, Corporate Energy and Environment Manager for John Lewis Partnership and Waitrose Supermarkets, responsible for energy purchase, energy efficiency and building sustainability.

MS REID EVANS: I am Hilary Reid Evans and I am Head of Sustainability Initiatives at Quintain Estates and Development plc. We are the developer of two of London's largest redevelopment programmes around Wembley Stadium and around the O<sub>2</sub> at Greenwich.

MR VINCENT: I am David Vincent, I am Director of Projects at the Carbon Trust.

CHAIRMAN: You may have heard in the last session about the importance of transparency and ability to measure so we know what is going on in buildings as well as what is supposed to be going on in terms of energy usage. Are there issues around that area which give you cause for concern about lack of availability of information and lack of ability to measure that we ought to be addressing?

MR VINCENT: I think the best way of answering that question is to divide it into various parts. First of all, I think the methodologies exist for those who wish to use them. The data is probably a little bit more difficult to get hold of but the most important issue is whether there is a willingness and an understanding as to why you actually want this data and why you want to analyse it in the first place. I think that we have rather lost the plot in so far as if you cannot measure it, you cannot manage it. It has been drummed into the cognoscenti for so many

years and it now has almost been abandoned as no longer being relevant. Yet it is more relevant now than it ever was in the past.

CHAIRMAN: And therefore?

MR VINCENT: And therefore we should take steps to encourage people to manage their energy and carbon emissions more effectively, and that means measuring what is not being measured at present to any degree of rigour or regularity. The measurement is relatively simple, the meters exist, the metering regimes that you would require at submetering level, all these are well-known; it is simply a question of explaining sufficiently clearly and with conviction why you want to do it.

CHAIRMAN: And whose job is that?

MR VINCENT: That is a mixture.

MR WRIGHT: I would back that up because you cannot manage what you cannot measure and we have got so much data it is sometimes difficult to work out what is actually happening. I can tell you precisely what is happening in any of our department stores or Waitrose at any one point in time, and it is absolutely essential for energy management. As David says, the actual installation of metering equipment is very, very simple. It can be quite expensive in terms of the fiscal measurement but the price of all metering is actually dropping quite dramatically, and I think that should be encouraged throughout the entire sector and the Government should lay standards down to say that all people should have some form of good measurement. By that I mean good measurement is measuring in half-hour data where you actually measure consumption every half hour and then you can analyse it. Measuring it on a monthly basis is not very good and you do not know where it has gone or what is happening. There should be some incentive and that would encourage much better metering everywhere, certainly not only in large stores or large premises but in the very small premises, and even domestically would be a great help.

MS REID EVANS: Speaking as a landlord, there is a huge bureaucratic burden, both for the landlord and for the tenant and there is a cost implementation from that. I fully support the need for more data, for more energy consumption information, but it sort of begs the question of what is the incentive for people to go ahead and use that data. I think that was referred to in the earlier session. The incentivisation at the moment is small because energy costs are still a relatively small percentage of overall corporate costs and there are very little other incentives, no societal incentives or social incentives for people to go ahead and demonstrate that they are improving their carbon emissions profile. We are in danger of having a two-tier market where we have good corporate citizens, like the gentleman on my right from Waitrose who is monitoring and measuring and so on, and then you have a large number of smaller organisations

who simply cannot afford the bureaucratic burden of putting in place the measurement criteria which are required. That will reflect in terms of the way in which the property market itself works, so you will get very good and green buildings which are occupied by those who have high corporate social responsibility initiatives and then you have some other very much less green buildings which are occupied by those who either do not care or cannot afford to go ahead, so we need education and measurement and some sort of incentivisation as well to make the two meet.

CHAIRMAN: What sort of incentive?

MS REID EVANS: In terms of incentivisation, again, speaking as a landlord and a developer, from our perspective when we look at one of our buildings, and we have done this exercise many times where we have run the numbers to find out how much it would cost us to upgrade a building to particular levels of sustainability or greenness, call it what you will, in most areas of the country outside of the South East where leases and service charges are much higher as one realises, the numbers simply do not stack up. You cannot afford to go ahead. As we are a public quoted company we have a responsibility to our shareholders. Much as we would like to green our stock of buildings, we do have to look at how much it costs us. If we find that the cost is greater than the benefit, we take that to our board and have a debate about it. We cannot turn ourselves into a loss-making organisation. You asked what we would like, well some sort of enhanced capital allowances because when you look at the refurbishment of existing building stock there are two separate areas. There is the capital cost of the upgrade, but then there is also the loss of earnings while those buildings are vacant because most upgrades have to be done under vacant possession, so we are losing out twice. We are having to pay out the capital, we are losing earnings while we are doing the upgrade and in addition we are not able yet, and I hope this will change over time, to recoup the cost of the upgrade through larger rental or service value charges. What we would like would be some form of enhanced capital allowances which would encourage us to do what we want to do anyway. We are a responsible developer and we would very much like to go ahead and upgrade our stock faster than we are doing at the moment.

I talked about the fact that many of the buildings are empty in order to be refurbished, well if there was some sort of empty void rate during the refurbishment, if there was a recognition that there was some sort of benefit from having upgraded that building, so for example, a reduced rate liability post occupation or some sort of stamp duty concessions, so those are all the things which would help us to balance our books, to be honest, and go ahead and do what we all realise is badly needed.

MR WRIGHT: I would back that, but to say that the price of energy is not a great incentive, it is becoming an incredibly great incentive. The cost of running a

supermarket, 64 per cent of that is caused by refrigeration and the cost of energy is a major problem to both John Lewis and Waitrose. It comes straight off the bottom line and affects all our bonuses and profits, but it still is not quite enough yet, although the price is still rising, to make us do the very high costs of refurbishments because we do not have the benefit of having empty buildings. We have to do it while the building is in service and the cost of that is very high. We would welcome additional enhanced capital allowances on not just equipment, but on building fabric work and other works associated with increasing the efficiency of a building.

We have recently had to seal a supermarket at a cost of some many tens of thousands of pounds for which we could not claim anything. It was done for a number of factors: (a) we thought it was very good practice and (b) it saved our energy, but it did take a long thought process to make sure that we did it. CSR incentives are also great because at present the price of energy is dominating many thoughts, especially our trading.

LORD BEST: Has anyone got this enhanced capital allowance scheme worked out that is not ridiculously complicated or frustrating? Is there a model that one can, "We will go for that".

MR WRIGHT: It is a slight problem. There are many things you can claim for, but there are equally many other things which are very energy efficient but are not claimable. When we refurbished our Oxford Street store we spent over a million pounds in terms of putting in additional cooling, but we could not claim for the extra £200,000 of costs of conventional means to put in some very, very highly efficient chillers. That was basically because they were too big to be tested under ECA allowances. The smaller versions were within the ECA allowances, but the larger ones were not and therefore were not eligible. That seems a little bit ridiculous because we had gone out of our way to make sure we were doing the most energy efficient effective thing we could do. Neither was any of the new roofing we put in or the building fabric work for enhanced capital allowance, so that put it on the back burner and we spent more on equipment that would give us very quick returns on investment.

LORD BEST: Enhanced capital allowances already exist, so one does not have to invent the wheel but one has got to perfect the wheel.

MR WRIGHT: It needs to be extended.

LORD BEST: For example, in your Oxford Street store, it would not take you long to explain - do not perhaps bother to do it now- how you would modify the existing scheme so that it gives you the incentives you need.

MR WRIGHT: Correct, yes. You are very welcome to come around and I will show you.

LORD BEST: It is a relatively straightforward change to the current system you are talking about. The costs that we kick back to Treasury then in terms of the taxes foregone on your profits at the end of the day, are they significant? Is the 'ask' a big word here?

MR WRIGHT: We claim around £3 million worth of ECAs a year, of which effectively 40 per cent is off as corporation tax, so there is a rate of return and a cost to the Treasury but that does have a direct benefit in terms of carbon emissions reduction and energy efficiency. We take any opportunity we can to make sure that we are putting in things energy efficiently but we could do more if the scheme was extended to include the building fabric.

MS REID EVANS: There is an extension of some of these debates which goes into the area of rateable value and the rates that are charged by the local authorities. Without giving you immense detail, we have an instance up at Wembley where we have put in a particular scheme which will have huge benefits in terms of carbon reduction, but we have not been able to claim back any rates at all from the local authority for that. I support what my colleague here has just said, but I think there is a need for some joining up of the two ends of the spectrum between the way in which capital allowances are thought about and the way in which things like rateable values are also thought about.

MR WRIGHT: I would echo that.

LEMBIT OPIK: I am very interested in your view candidly of whether you think we are going to end up in a situation where electricity is going to cost so much you will do it anyway because people like me who would love the Government to do the things you described are concerned that the Government will say, "People who own large businesses are going to find it so expensive, it will be cheaper for people like yourselves to do the environmental things without any incentives from the Government". What is your view?

MR WRIGHT: The cost of electricity is rising rapidly now and I do not think it will be a case of whether we can afford to do anything, it is whether we can afford, full stop, to carry on the way we are. We have got to change the standards and the way we use the energy and we will rapidly get into that stage. Perhaps there should be standards laid down for chilling or air conditioning or heating. We all get accustomed to having chilled shops, to having warm offices and air conditioned offices. Twenty years ago we did not and that has a very major expense. If the price of energy rises as quick as it has done in the last year, and all the indications are that it will, then we must stop and consider, should we be putting in this energy using equipment, never mind making it more efficient, but should we be changing the standards on what we expect people to work and do. That is perhaps where regulation from Government could come in. Part L of the building regulations was a good first step because it puts everybody

on a level playing field. The next building regulations should be stronger to make sure everybody becomes more energy efficient. As a retailer, we do not want to do what would put us at a competitive disadvantage but if everybody was at a level playing field, if you said, "Cooling must not be put in to bring the temperature down lower than a certain value", then we would all do it, but if I do not do it at Oxford Street, costumers will go to Debenhams or BHS down the road because it is more comfortable.

CHAIRMAN: We were talking earlier about certificates that have to be displayed which the public sector are going to have to do in the next few months. That will be a requirement of the private sector. Do you think it would be a good idea for every private sector building to have a certificate displaying the energy use of the building? Do you think shoppers might think, well, we are going into this store here which is not really very good and perhaps we ought to be shopping somewhere else?

MR WRIGHT: That is a good question. I do question whether the average shopper would understand what it means. You will get the green A to F rating, but in terms of shops and other retail buildings, it is difficult to give a good grading. We had a wonderful efficient shop with no ventilation, limited lighting, no air conditioning but also no customers, but it would be fantastic, it would be a grade of A++. Now we are building shops which are very energy efficient which incorporate chilling, all the modern facilities, good lighting, everything to a higher standard but using a lot more energy. They will come lower down the scale, so it is a matter of the customer understanding.

MR ISAAC: I think the DEC's for publicly accessed buildings are one of the best things to come out recently because we have the best regulators in the world and that is our electric, the people of the district and they will challenge local authorities if their assets are not run efficiently which they are paying for through their council tax. From a local authority point of view, the DEC's, although they are a bit like a health check for a man, they are very uncomfortable but we gladly do them, will deliver eventually if used properly.

MS REID EVANS: I think the point may have been raised in the earlier session, but where you have buildings in multiple-occupancy, in many cases at present each individual unit may not be metered, so there is a cost in terms of installing metering in multi occupancy units. There is also a bureaucratic cost in terms of taking that data for a multi-occupancy building and keeping the information and recording whether the performance has changed over time. There is a change there in terms of the landlord/tenant relationship because until now the landlord has not been responsible for his tenant's energy consumption, that has been an entirely private matter for the tenant. If the landlord were to be expected to put in place various forms of energy certification, keep league tables of what his tenants are consuming, that entirely alters the nature of the landlord/tenant relationship.

LORD BEST: Still, we are in to smart metering, are we not? It cannot be the end of the world for everybody to have separate meters so to be very clear what it is they are using?

MS REID EVANS: It is not the end of the world but there is a cost in installing it and there is a cost in monitoring it. I understand the intention is that over time there will be league tables published of what the consumption of the energy within a particular building is. You would imagine with very large multiple-occupancy buildings that the landlord will be expected to maintain that sort of information. I am very much in favour of that happening, but there is a degree of complexity and a change to the nature of the relationship, as I said earlier.

MR WRIGHT: Perhaps you should encourage suppliers. There are one or two suppliers who we are with who will put in automatic meter readers for small companies at a relatively modest cost and less than £200 a year. We have to select the supplier and we are putting them in and it does create good benefits. It becomes frightening when you see what smaller units use.

CHAIRMAN: This issue of making sure we have got the data and it is properly measured, is it the landlord or tenants' responsibility or is this an issue for joint working?

MR VINCENT: I think it is more a question of joint working, understanding why, again, you are obtaining this data. If you are paying a bill and you are happy to pay the bill and you do not really care how expensive it is, you will not bother monitoring it or measuring it. We are beginning to see a change in attitude where people are getting more concerned about the bill, so they are realising their fiscal meter is totally inadequate. What you require is a proper metering regime. If the landlord is not paying the bill, he will not be interested so much because it becomes a tenant responsibility. To elaborate on what Bill was saying earlier, it really depends on who you are talking to. If you are talking to an owner/occupier, as you were a few moments ago, then there will be a genuine interest on the part of both the owner and the occupier in that case because it is one of the same entity, but if the owner of the building is somewhere in another country and your tenant is struggling to make ends meet, et cetera, it is the tenant who wants that information, the landlord is not interested. Then you get into the much deeper problem of what do you do about an expensive to run building that is not yours, that you are only leasing but the landlord has responsibility for? You are straight in the middle of in whose interest is it to reduce that bill and in whose interest is it to invest to reduce. It is only of interest if you think that by investing you will make your building either a better capital asset on your portfolio or it will command a higher rent in the market place. At the moment, not only does that not happen, we simply do not have enough good information of what is a good low carbon building. The introduction of the energy performance certificates and the display energy certificates are for the time being

going to build some transparency into the marketplace which is much needed.

CHAIRMAN: Can I raise a point which the ordinary member of the public in the street might ask. They are struggling with higher energy bills in their own homes and many of them are paying to put in low energy light bulbs themselves and diligently go around switching their television off at night and making sure the lights are switched off. They say this industry here has got all these people who are making millions of profit a year and are coming in saying, "Can I have a bit of the hard earned tax that I pay" to give them incentives to cut energy. In fact, somebody emailed me this morning following my appearance on the *Today Programme* saying, 'We talk about energy conservation, I walk down the high street and every shop in the middle of the winter has got their doors open and heat is just rushing through them or Canary Wharf, for example, when we go down there at night with nobody working, every light is on in the place". Are incentives needed from Government? Is it not just a bit of common sense that needs applying to it, some of these obvious examples of misuse of energy?

MR WRIGHT: The first ten per cent of any energy reduction can be done by plain common sense, as you say, just by turning things off and closing the doors. That first ten per cent is very easy to do and lots of people are not doing it. We achieved a 15 per cent reduction over three years by having a massive campaign telling all our 67,000 partners, "If in doubt, turn it off, close the door and don't use it".

CHAIRMAN: 15 per cent?

MR WRIGHT: 15 per cent. In the past three years we have done that. However, we are now running out of steam, we have done that part. The next part is more difficult and I am tasked with getting five per cent per year and that requires investment and installation of quite expensive electronics, better installation, better lighting and a lot of refrigeration. We are spending £55 million on refrigeration changes. That requires investment and that has to come out of a very difficult commercial market and that is where incentives need to come. The Government could do an awful lot to encourage, as it does do through energy savings trust and carbon trust or pure education for everybody, not just for domestic retailers, turn it off if in doubt, but the rest is more difficult, that requires investment and incentivisation.

MR ISAAC: I would not underestimate how tunnel-visioned operators and site managers can be. They come into the office, park in the same place, go to the same office and it takes someone from the outside to come in and say, "Let's look at this differently. Let's look at it from the outside in and see where the efficiencies can be delivered". That is one of the best ways of engaging people. It is amazing what that will deliver. We might think it is obvious, but if you are doing the same thing every day, it is very hard to see these opportunities.

CHAIRMAN: Is this part of your partnership working that you are trying to achieve that?

MR ISAAC: Yes. The work we did with our retail centre, the Kirkgate Centre in Bradford, really was a consequence of putting in place an environment and management system with market services, but we knew we could not without bringing our partners within the retail sector with us. They were crying out for support. They knew what they should do, they just did not know how to do it. It was the leadership that was needed to get them to work together, to get operations managers in the same room to look at energy efficiency issues, get the markets and the centre owner and his management team, the tenants together and say, "Look, let's see what we can do better" and that really did deliver.

LORD BEST: You are a really good case study because you have lost out on retail to Leeds, have you not, and you have lost out on a lot of commercial to Leeds? If you are being fussier than other councils and you are going around trying to encourage people to do things they do not want to do, then you are a pretty good case study to see how the powers of persuasion can be effective because it has not been an easy market for you, Bradford has not been on an up.

MR ISAAC: No and the Kirkgate Centre was more than happy to work with us. We got some funding from Envirowise, from the Management Shopping Centre campaign, so we had some consultants come into the Kirkgate Centre and evaluate what efficiencies could be delivered. As soon as the centre management team became aware of what could be delivered, we then started to see some real improvements and we reduced energy in some areas by 75 per cent.

LORD BEST: 75 per cent?

MR ISAAC: Yes, with the implementation of new systems, for which the payback period was less than three years. They needed that hand-holding from the local authority and the partnerships that we have to move that forward.

LORD BEST: That is brilliant.

MR ISAAC: It was about getting the operations managers in the same room to say, "Look, we've got a problem, how can we resolve it to do things more efficiently?"

LORD BEST: Do local authorities share their successes and the difficulties they face? Are you part of a group that is looking at this?

MR ISAAC: We did share it with a group called the Yorkshire EMAS Group, that is the EMAS officer throughout Yorkshire and Humber, but

unfortunately once we had achieved the standard in market services, ISO 14001, we were asked to leave them alone and move on to the next challenge, but it really was a missed opportunity. We covered one shopping centre in Bradford but there are three other shopping centres in the surrounding towns that members wanted us to engage, but unfortunately we could not progress the good practice that we had delivered with the Kirkgate Centre in our market services because there was no-one there to support them.

LORD BEST: Yet you can achieve a 75 per cent saving in energy costs?

MR ISAAC: On the centre, their energy bills had gone up by 40 per cent, so anything that had a payback they would go for. One of the problems they had was accessing the capital funding and there is plenty of funding around for these types of projects, but for some reason there is little contact with the retail sector. They only got to hear about funding opportunities from Yorkshire Forward, from being a member of our group that we established which was there to support them. They were more than welcome to access funding when we sent them the links through. I think they accessed £6,000 to do some efficiency work around the centre. They ran with it.

LORD BEST: That is the regional development agency, Yorkshire Forward in your case, that was the source of the funding?

MR ISAAC: That was the source of the funding but the feedback we get from the centre management team is that this really should be coming through the British Retail Consortium, learning from best practice, and the British Council for Shopping Centres. The Kirkgate Centre was punching with the big players recently and was nominated for an environmental management award, so it was up against places like Meadowhall, the MetroCentre and Trafford Park. Just to get on the shortlist was a massive achievement for that centre, through good engagement with the local authority.

LORD BEST: Has Bradford been into office blocks as well as shopping centres?

MR ISAAC: My involvement with that project finished earlier this year, but we have kept the networks going to feed them information on opportunities. Within the council we will be implementing the DEC's on our facilities. I think they will be an excellent tool to improve performance within our asset base basically because members of the general public will challenge us on them because they understand them. The A to G rating is very simple, they see that and they will challenge us on the performance of our assets.

CHAIRMAN: Can I ask about renewable energy. Germany has got a particularly good record of microgeneration on both domestic and non-domestic properties and we do not do so well in this country, do we? Is this an issue you

have looked at and are there things again which could be done to try improve this?

MR WRIGHT: It is a very big issue for us, especially the ten per cent renewable on new sites and our major refurbished sites because it is very, very difficult and potentially unviable to put in renewable energy on a single-site basis. We actively encourage the people we work with to put in renewable energy on a development-wide or district-wide service and we welcome that. We have got quite a number of sites, but we are being held back by a lot of councils who want 10, 20 per cent of renewable energy on site and with one particular site, it is very, very difficult to achieve. That money would be better spent on energy efficiency measures. I have got one particular issue this coming week with a Council in London where they are turning us down on planning permission because we have not got ten per cent renewable. I keep saying, "How do we do it? It is just not viable". If they came to us and said, "We've got a district heating scheme, our district CHP scheme", we will happily tie into that. We are already tied into the Olympic City of Stratford scheme. We have already been their core customer for heating, cooling and power. We will happily do that, but on a single site scheme I would far prefer to spend the money on energy efficiency measures.

MR ISAAC: I cannot stress energy efficiency measures enough because there is a tendency to migrate towards a big project which sounds very good when good site energy management is the best option.

MR VINCENT: It may be worth elaborating on this a little bit. I fully endorse energy efficiency in using the environment as your first step, but it might be worthwhile reflecting on why we are trying to incorporate renewables into the build environment as a supply of energy. It is purely and simply because they have a very low carbon intensity, so you are trying to reduce the carbon footprint. It is by no means necessarily the best way of reducing the carbon footprint, it is not necessarily the cheapest way of providing you with energy, so what you are looking at here is a story of which when you unfold it, not only is it an issue relating to the building, it is an issue relating to groups of buildings in the build environment and it is also importantly related to the energy supply to those buildings. If your overall objective is to reduce the carbon footprint of the buildings, there is no excuse for not looking sensibly at the hierarchy of investment opportunity here. Would you put all your money into on-site solar photovoltaics at some quite expensive cost to the prospective developer or would you think in terms of a community biomass CHP scheme or would you think in terms of entering into a transparent contract with a bulk renewables energy supplier someone else in the country. When you look at those kinds of issues, you begin to get into the same kind of language that investors like to talk about and that is looking at investment in relation to benefit. If you are going to put a lot of money in to yield a small benefit with on-site renewables, for example, at their current stage of maturity - and I will stress this because quite a lot of the

renewables are still, relatively speaking, immature technologies and therefore expensive - but if you are going to focus in a rather prescriptive and ill thought out way on a solution you think sounds good because it is on-site and physical rather than look holistically at what is the cheapest way of achieving your objective, then you are going to end up in avenues which Bill has described where there is a tension between a willingness to apply renewables on the one hand, but a sensible out of the pocket look on the other.

CHAIRMAN: As I understand it, the reason why Germany has gone down the route they have is where there is surplus renewable energy created on-site, the price which it has been purchased by the equivalent to their national grid is a lot higher than it is in this country. The financial arrangements have changed.

MR VINCENT: That is absolutely correct.

CHAIRMAN: Is this something we should be looking at? Is it the fact that your scheme is not financially viable because you cannot then sell on your surplus?

MR WRIGHT: For us to do ten per cent of our energy in a Waitrose building in East Sheen, for example, we would be looking at £320,000 worth of photovoltaics, which would give four per cent of the energy required and we would have to spend more on structural requirements. On biomass, they would want ten tonnes a week of woodchip coming in, so it still becomes very unviable. You have to look at things like that. If we could make money out of that. I know it sounds bad, but if they put a CHP scheme where we cannot use all the energy, if the grid or the local RECs bought the energy at an enhanced rate, then that does change the economics of the situation. Certainly in Germany and Denmark there are enhanced local rates where domestic households can export their own energy and be paid a significant sum. That does require government intervention and government incentivisation.

LORD BEST: The application of the ten per cent renewables is done by the local authority?

MR WRIGHT: It is. It starts with the Merton Rule and spreads to other things.

LORD BEST: You say the level of sophistication within each authority varies in running for that.

MR WRIGHT: Considerably.

LORD BEST: So whether it is off-site, near site, on-site, those kinds of decisions ---

MR WRIGHT: It is generally wanted on-site. We would happily purchase green energy from a single source off-site to offset the use of on-site but a lot of local authorities will not allow that.

LORD BEST: Back in Bradford then, is there advice from Government that you are surprised other local authorities do not pick up on or is this a kind of free for all?

MR ISAAC: I am sorry, I cannot comment on that, that is not my area.

MS REID EVANS: I will mention a couple of things which have come through that are terribly relevant to what we do. One of them is we do experience a huge variation between the local authorities and their interpretation of the guidelines. I think some degree of standardisation or education would be very helpful there because you can try to build in one area or refurb in one area and you find that it is impossible. Another issue, and I think David referred to it obliquely, is total life cycle accounting for some of these measures that we are being encouraged to put into place. There was a reference to photovoltaic cells. If you look at photovoltaic cells in terms of the energy that is used to produce them and the materials which are required and their energy production over their life cycle, you can very easily make a case to say that, in fact, it is not a "fait accompli" to put them in place. I would wholly support what David was saying earlier about the need for more data in that instance. I think in some areas we really do not know what the best answer is and we do need to work very hard to find out where we should be putting our resources and our energies. The point was made about energy reduction and a change of attitude is a very valid one. That is one area where we know we can make a real change, a real difference. Very simple things like putting in more efficient boilers in premises would give a huge benefit but, as I said earlier, the cost versus the benefit from a landlord perspective often does not work without some degree of incentivisation.

LORD BEST: A codifiable thing along the line which is about regulation because I think, Bill Wright, you were saying you want a level playing field because people will just go to Debenhams if you have done the right thing, your CSR policy is in, but it just costs you too much. On the domestic side, a number of us have come to the conclusion that it is only by regulation that house builders will produce higher standards and they are not going to do things voluntarily. It is best to have building regulations that you crank up over a period of time, but give people plenty of notice. It is across the board, every house builder faces the same issues as every other one, a level playing field of competitiveness. Ultimately, are we going to be looking at a regulatory system which is universal in the commercial sector, one which says where this is going and one makes it clear where the regulatory future lies, but it is going to be cranked up year after year, you are going to have to achieve standards. How you do it, then the ingenuity and entrepreneurial spirit and everything else comes into play but you just have to get there. Do we eventually find ourselves going down that same

route?

MR VINCENT: I think the question of which policy instrument you would think might be the most effective one is a question you might ask a little bit downstream of an earlier question which asks about the current framework in which developers, owners and investors make their money. What I am getting at here is the model at the moment applies very nicely. You build a building, you let it, you allow it to appreciate in value, you get rental yields, done against a yardstick in terms of construction costs and downstream in terms of the cost of running the building when it is occupied. That particular model does not entertain carbon reduction at all because carbon does not have a value at the moment. It may well have value in the future because the EU Emissions Trading Scheme, the Carbon Reduction Scheme will begin to sensitise appraisal calculations to include carbon. Once you get into that area, then you need to ask yourself what is the mix of policy instruments which impact on the market to encourage and incentivise investors to look again at their business model. The business model at the moment allows you to build a building and revisit that building nearly every 15/20 years or so for a major refurbishment rather than continually improving that building year on year. The model is leave it alone until you realise that you are not going to get the rents and you are not going to get capital appreciation. You have got to do something on refurbishment because your neighbouring buildings have done something. Against that background, how do you factor carbon in? Yes, you can do something on regulatory standards, absolutely, and the planned forward look, if you like, on the non-domestic front, that huge ambition which is going out for consultation later this year to have zero carbon in new build, that is one story, it addresses one per cent per annum. The refurbishment market might be another one per cent, so the issue here is what is happening with the other 98 per cent, absolutely nothing.

That is why there is a story here to unfold, as I mentioned earlier, between the developers, the owners, the occupiers and the energy supply sector as to how you are going to achieve this objective as cheaply as possible with minimum disruption because that is the name of the game. If you have too much economic disruption when you are trying to make these kinds of serious changes, you are going to upset shareholder value and people get frightened. Occupiers do not know where they stand because they cannot factor in the new technologies, for example. The number of concerns that certainly we had in terms of the degree of disruption which can be brought about by well-meaning and well-intentioned but the ill-thought out introduction of either regulatory measures and policies or technologies even causes that disruption to magnify. We have really got to address this.

MS REID EVANS: I support what has just been said, but beware of the law of unintended consequences because the logical extension of what David has just been saying is that as a landlord, I find myself in situations where my building is not viable financially, so I either sell it to someone who thinks they can

do something or I tear it down and I rebuild it to better standards so I get better yields from it. Think about the energy impact of that and also think of that act of rebuilding and so on. Also, think about the impact on our heritage in terms of our towns and cities, the difference it will make to our physical build environment. There is another strand to this in terms of the law of unintended consequences. What happens to small businesses which are at the bottom of the feeding chain that have processes which are highly carbon intensive, what happens to their role within the economy generally and where do they go to? Do we end up with a two-tier market where there are “dirty landlords” who are able to give these people a home at high cost and lots of people who are very concerned about the corporate social responsibility who are sitting in squeaky clean and preened buildings.

MR WRIGHT: I would like to see the tightening up of the building regulations so that everybody is working off a level playing field, both at L2A and L2B, which are for new and refurbished buildings and for, perhaps, better clarification of the code for refurbished buildings. That way you will drive standards up and energy efficiency up without putting everybody at a disadvantage between themselves. In that way you will drive innovation and competition.

CHAIRMAN: Finally, can everyone briefly summarise in 30 seconds what you think we should be recommending.

MR ISAAC: I think we need to show a bit of leadership at the local authority end in supporting organisations and businesses through partnerships and best practice sharing to improve their environmental performance.

MR WRIGHT: Extend the use of enhanced capital allowances, work with partnerships, with local authorities and RECs in producing district renewable zones and even tighter regulations and building regulations.

MS REID EVANS: I would support enhanced capital allowances, some empty void rates during refurbishment and so on, anything which makes it worthwhile for us to go ahead and refurbish those buildings which we want to do anyway, so the property sector itself does not become less attractive to the investor and we find that our services and capital are drying up.

MR VINCENT: I will make two points. I do not think we are going to make the kind of reductions in carbon emissions which we are going to require from the building stock just by looking at the buildings alone. We are going to have to look seriously at the nature of the energy requirements of those buildings and how to deliver that energy at a reduced carbon quantity going forward. The second point is I appreciate the scope of this inquiry is about mitigation and reducing emissions, but I would point out that if you are going to address the changes which will be required when you are looking at the building stock, adaptation,

looking at the whole raft of changes to the environment which buildings will have to cope with going forward so they will be fit for purpose is equally going to be of concern. It is just that they have not risen above the parapet of the debate so far but they will do.

CHAIRMAN: Thank you very much indeed, that is really interesting. We are going to go away and write up all the evidence we have had and try and come to some recommendations. I think some of the themes have been fairly consistent across the evidence we have taken, but we will not pre-empt that. We will try and get our report out by July and obviously we will let everyone have copies at that stage. I thank everyone for coming along and thanks to everyone who has come to listen this afternoon, it is nice to have such a large audience for our inquiry.