

WELSH GOVERNMENT RESPONSE TO THE QUESTIONS FROM THE CLIMATE CHANGE ENVIRONMENT & INFRASTRUCTURE COMMITTEE (CCEI) RELATED TO THE WELSH GOVERNMENT'S DRAFT BUDGET 2026-27.

Warm Homes Programme

In April 2024, we launched the demand-led Warm Homes Nest scheme, the first phase of our Warm Homes Programme. Nest was launched as a 7-year £30m per annum scheme to tackle fuel poverty while meaningfully contributing to our efforts to decarbonise the residential buildings sector. Given the shift in emphasis in the new iteration of Nest, efforts have focused on ensuring quality delivery of that scheme before exploring further phases including scoping area-based initiatives. We are working with the Nest contractors to identify small area-based interventions which can be delivered within the scope of the contract, such as blocks of flats or streets of terraced housing. A number of other small-scale projects have been delivered in partnership with registered social landlords and local authorities. Officials have now begun scoping work on a large area-based scheme and will be taking options to the next administration.

- **What is the justification for only a 2% uplift in the capital budget given the findings of the Equality and Social Justice Committee's fuel poverty inquiry that investment in the Warm Homes Programme is "nowhere near" the level required to meet fuel poverty targets?**

A 2% inflationary uplift is being applied to each MEG which reflects the Office of Budgetary Responsibility's March inflation forecasts for 2026-27. This ensures every part of the Welsh Government begins 2026-27 with at least the same level of funding in real terms as this year. While we acknowledge the Committee's concerns regarding fuel poverty, decisions on additional investment must be considered alongside competing priorities and overall affordability within the wider capital programme. The uplift is being applied consistently across all general capital budget lines within the MEG, in line with the agreed approach to the 2026-27 budget.

The Draft Budget 2026-27 is just the beginning of the budget process – not the end. A lot will change between now and January when the Final Budget is published. Whilst a 2% inflationary uplift to general capital budgets at this Draft Budget leaves unallocated funding, it is our firm ambition to secure a Final Budget

which uses all the resources available for 2026-27 and supports frontline public services.

The Warm Homes Nest scheme is not the only solution available in Wales to tackle fuel poverty through improved energy efficiency. It sits alongside the Energy Company Obligation scheme, which operates across Great Britain and is funded by energy suppliers.

We continue working with the Welsh Local Government Association and are leveraging as much funding as possible into Wales from GB-wide schemes and ensure support is available to those most in need. For example, the ECO flex scheme is available in every local authority in Wales. This will ensure broad access to the scheme for households across Wales and that Welsh householders get their fair share of this funding.

- **What is your estimate of the number of households you will support through the programme in 2026-27, and how does this compare to previous years?**

The Nest scheme will aim to support the annual target set out in the original policy document, which was 1500 homes, recognising the scheme is demand-led. Some funding is also being used to remediate poorly installed external wall insulation in Arfon. We expect the 2% budget uplift to cover increased costs for labour and materials.

A conscious decision was taken to move to a whole house approach, and a low carbon first policy, when we launched this iteration of the Nest scheme. Recognising the costs of this approach are higher, we are working with our contractors to seek efficiencies where possible without impacting on the quality of our delivery.

The full data on 2024-25 Nest delivery will be included in the annual report, which we aim to publish before the end of the year.

The last year of the previous iteration of Nest (2023-24) supported 4,816 households from a budget of £39 million including supplementary allocations. This data includes some projects started in 2023-24 and finished during 2024-25, in parallel to mobilising the new scheme.

- **How are you working with the Cabinet Secretary for Social Justice to balance the need to decarbonise homes through deeper retrofits with the urgent need to tackle fuel poverty?**

The contract with the Nest delivery agent requires reductions in both energy bills and carbon emissions for each individual home, as well across the scheme as a whole; The most cost-effective interventions are recommended to deliver these dual benefits.

An example of this balance is our agreement to switch out energy inefficient gas boilers with ultra-efficient, modern replacements where heat pumps are not a suitable solution. This is a relatively low-cost intervention, but its carbon and bill saving impacts are significant.

The Nest scheme official-level steering group includes representatives from Communities and Tackling Poverty and Climate Change. The group monitors progress and agrees any changes required to meet the dual outcomes of the scheme.

- **Are you still content with the current approach of an increased budget cap per household providing deeper retrofits to a lower number of households than previous years?**

The new Nest scheme encompasses efficient energy efficiency measures which will enable people to heat homes at a lower cost. These measures also align with the Welsh Government's decarbonisation targets. To date, we are confident we have not spent excessively on any property, and our interventions are proving cost-effective. We aim to publish the 2024-25 Nest annual report before the end of the year.

- **What impact will this approach have on progress towards fuel poverty and climate change targets?**

The cost of energy is considerably higher than before the price surge exacerbated by Russia's war in Ukraine. This has resulted in an estimated 25% of households in Wales living in fuel poverty compared to 14% before the price surge.

The greater the level of energy efficiency intervention through deeper retrofit or the application of technology such as solar PV, the higher the bill savings. This ensures that we not only lift people out of fuel poverty but protect them from future energy shocks. We are working with the Nest retrofit coordinators to ensure the suite of interventions suggested for each home delivers benefits to the occupiers.

The modelling conducted in developing the business case estimates the current approach to the Nest scheme should deliver a total of 2.11 million tonnes reduction in Carbon Dioxide emissions over the lifetime of the assets installed by the scheme; this figure is the total saving from installations over the 7-year duration of the

scheme. The greatest impact on emissions from residential buildings will come from the switch to low carbon heating. However, the unit cost of electricity means this is not always the most appropriate solution from a fuel poverty perspective. In these instances, a pragmatic approach is adopted. Deploying extremely efficient gas boilers alongside insulation is often a cost-effective solution to reduce emissions and lower energy bills as much as possible in the short to medium term. The inclusion of solar PV systems where appropriate has also allowed households to generate their own renewable energy, contribute to our energy security and manage their bills.

- **Can you provide an update on work to develop an area-based scheme as part of the programme?**

Officials are developing options for decarbonising within geographical areas, as a complementary approach to the demand-led Nest scheme. Considerations include the geographical spread of energy inefficient housing, potential technology solutions and impacts on economies of scale. They are also taking into consideration the large number of area-based schemes already completed through Arbed, which benefitted from EU funding no longer available to us. Options on a future area-based scheme will be put to the next administration.

In the meantime, we have already supported some schemes with specific technical needs. For example, we are funding work at a British Iron and Steel Federation estate in Cardiff.

Our Optimised Retrofit Programme has funded some social landlords to offer retrofit on an area basis where there are significant numbers of social homes alongside houses of other tenures. This option is available to any social landlord when they are assessing potential schemes.

- **Can you confirm the level of any Barnett consequential received as a result of the UK Government's investment in its Warm Homes Plan and how this is reflected in your budget?**

The Warm Homes Plan has not yet been published, and we look forward to seeing the details of funding across interventions and the split between financial years at that time.

- **What consideration has been given to ring-fencing any consequential for investment in this programme?**

The Welsh Government does not ring-fence Barnett consequential for the same purpose as the originating UK Government programme. While changes to funding in England for devolved programmes result in adjustments to our block grant through the Barnett formula, these changes do not determine how the block grant is spent. Decisions on allocating the Welsh Government's budget - which includes the block grant, devolved taxes, and capital borrowing - are made by Welsh Ministers with the Senedd's approval. Where there is a case for using consequential funding for similar purposes, Welsh Ministers will allocate it in line with their priorities as part of the appropriate budget process.

Tackling fuel poverty is a priority for this government and we will carefully consider any consequential funding in this context, once the details are available.

Residential decarbonisation and quality

- **How much of the total capital funding has been allocated to the Optimised Retrofit Programme (ORP) for 2026-27?**

No decision has yet been made, I will consider advice from officials and will make an announcement in due course.

- **How is the ORP being evaluated and how is this being used to inform policy options ahead of Carbon Budget 3?**

We have commissioned a social research organisation to conduct a formal evaluation of the Optimised Retrofit Programme. This includes quantitative and qualitative research. The researchers are conducting a cost-benefit analysis of the programme and an assessment of the costs and benefits of different packages of interventions funded under the programme. Alongside this work, we have also invited social landlords and their tenants to participate in a survey, interviews and focus groups.

We will use the outputs of the research, which we intend to publish in 2026, to inform future policy to reduce emissions during Carbon Budget 3 (2026-2030).

We are also collecting case studies to demonstrate the benefits that can be secured through good practice installations as well as examples of challenging projects and the steps taken to overcome difficulties.

- **How many households has the Green Homes Wales scheme supported to date, what is the average loan value and how many households do you estimate the scheme will support in 2026-27?**

The Green Homes Wales pilot scheme supports owner-occupier households to improve energy efficiency and reduce carbon emissions through affordable finance. Since applications opened in autumn 2023, 723 retrofit assessments have been completed, providing households with the information they need to take decisions around investment. A further 143 assessments and 110 applications are in progress.

The average loan value on projects to date is £15,386. By the end of the financial year 2025–26, we expect to have completed around 1,000 retrofit assessments and 230 retrofit projects. With the 2% uplift in funding included in the 2026–27 draft budget, similar delivery levels are anticipated next year.