

4 Key barriers to unlock for scaling up local and regional action

This chapter identifies key barriers facing cities and regions as they scale up their policy actions, based on responses to the OECD Survey on Decarbonising Buildings in Cities and Regions and on the policy dialogue with national government officials in policy seminars. These barriers include insufficient government budget and resources, insufficient incentives to secure the commitment of property owners, the lack of an effective monitoring and evaluation framework and the limited resources of local industries. The chapter also discusses how cities and regions believe the impact of the COVID-19 crisis has affected their ambitions, financing and strategies on decarbonisation of buildings.

Technical solutions and basic policy tools such as building energy codes already exist in some countries to begin the process of decarbonising buildings. In addition, as discussed in the previous chapter, cities and regions have already taken a variety of policy measures, from introducing regulatory tools and frameworks to engaging local actors. However, scaling up the process of decarbonising buildings poses a number of obstacles. Without co-ordinating these policy measures in cities and regions and across levels of government, these measures are unlikely to provide sufficient incentives for property owners. Lack of awareness among citizens and businesses of both the importance of energy efficiency in buildings and its potential benefits has been holding back a rapid transformation of the market. Effective policy monitoring and evaluation will be needed to improve the effectiveness of policy measures and to ensure accountability of public investment. Most of the obstacles pointed out by cities and regions are related to governance gaps, including 1) insufficient budget and resources, 2) a lack of incentives to secure the commitment of property owners, 3) a lack of focus on analysis, planning and monitoring tailored to local circumstances, and 4) a shortage of skilled labour and lack of support for small- and medium-sized enterprises (SMEs). The COVID-19 crisis and accompanying social changes will also have a mixed impact on decarbonising buildings, which requires effective policy implementation and governance.

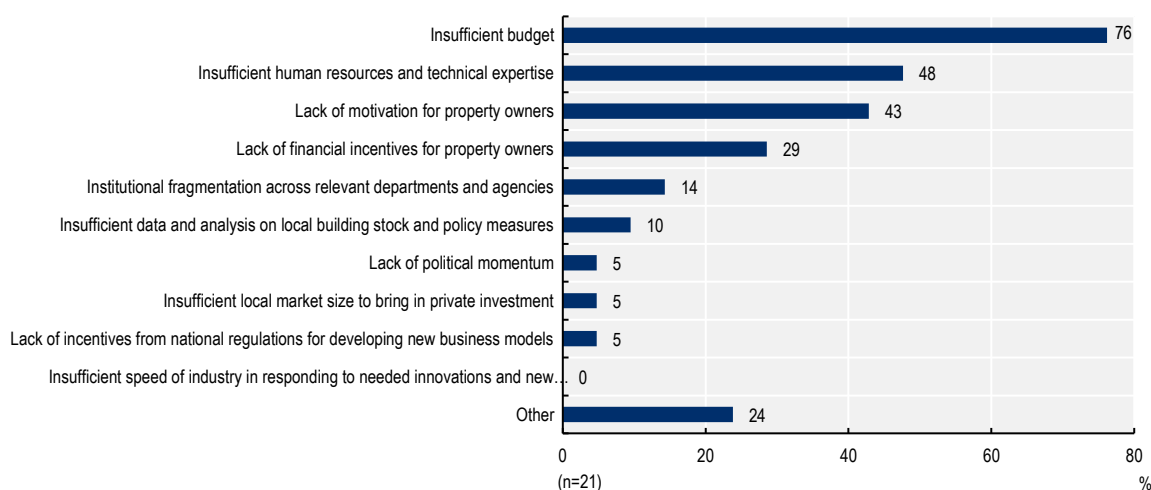
Despite their potential, cities and regions face major gaps in governance

- **Insufficient government budget and resources:** Of cities and regions that responded to the survey, 76% consider “Insufficient budget and resources” the greatest obstacle to enhancing energy efficiency in buildings, and 48% “Insufficient human resource and technical expertise” (Figure 4.1). These are mainly related to the capacity of local or regional administration and stakeholders to improve energy efficiency in buildings. Financial grants or loans require a significant budget for cities and regions, which limits the expansion of existing local programmes. Further financial support from national or supra-national organisations as a COVID-19 recovery package could help address municipalities’ financial needs. The most pressing challenge is to expand the human resources and technical expertise devoted to core functions such as plan making, code enforcement and public building contracting. Without them, it will be difficult to implement new initiatives supported by green recovery packages. Subnational governments need capacity with the relevant technical background to attract, manage and retain external experts to carry out planning, enforcement and undertake such projects.
- **Lack of incentives to secure the commitment of property owners:** In the OECD survey, 30-40% of cities and regions consider “Lack of motivation for property owners” and “Lack of financial incentives for property owners” an obstacle to enhancing energy efficiency in buildings. Unlike public infrastructure owned by the government, private properties cannot be modified without the owners’ consent. Upscaling energy efficiency investment in private buildings requires high upfront costs, and is often difficult. Furthermore, split incentives between owners and renters, the difficulty of reaching collective decisions in multifamily housing and competing priorities across property owners (e.g. safety, financial stability) can hold back energy efficiency investment in buildings, even when the benefits are clearly documented. In the absence of appropriate regulations for existing buildings and a clear regulatory push to encourage buy-in from individual property owners, cities and regions will need to devote financial and human resources to engaging and co-ordinating with these owners to invest in energy efficiency. While, at a national level, countries need to develop effective regulatory frameworks for existing buildings, cities and regions can explore additional options through experimentation.
- **Lack of an effective monitoring and evaluation framework:** Although this is not broadly recognised by cities and regions, the clear challenge is to analyse the local building stock and energy performance, develop a long-term plan or strategy and monitor local policy progress. There are a myriad of projects and initiatives on energy efficiency in buildings at local scale. However, it

is not clear how they contribute to the overall targets of cities and regions and whether they are having enough impact. Most indicators used for evaluating policy progress are output-based, which means that cities and regions cannot evaluate their progress relative to overall targets. In addition, cities and regions face more difficulties monitoring and evaluating the progress in private buildings than in public ones. This suggests a need to introduce monitoring and evaluation frameworks such as the use of smart meters or mandatory reporting systems for cities and regions. Considering the rebound effects pointed out by several experts, indicators should monitor the actual energy consumption or carbon emissions from buildings in addition to the improvement in their energy performance.

- Local businesses' lack of skills, knowledge and financial resources:** Strict energy codes for new buildings, retrofitting and renovation would make buildings more automated, digitised and decarbonised. The workforce to support the design, operation and maintenance of these buildings will need to be trained in the necessary skills. The demand for skilled labour and the supply in local industries is already out of balance. In Canada, for example, the city of Toronto has analysed that the number of competent contractors needs to increase to meet the demand for its ambitious plans for decarbonisation. This labour shortage could increase, especially given that some countries seek to boost the housing supply to increase housing affordability and scale up renovations for decarbonisation. The local employment transformation linked to energy efficiency measures will rely on a specific set of skills. Workers will need to train, reskill, and upskill to meet demand for the energy efficiency market. Building these skills will require concerted efforts from government, industry and key stakeholders (Truitt, Williams and Salzman, 2020^[1]). In the survey, when cities and regions were asked about their key priorities for energy efficiency in buildings, 57% of the cities reported that they would need broader engagement of citizens and the private sector and greater awareness raising; and 38% cited greater support for innovative local projects and initiatives (Figure 3.5). SMEs are at the intersection of these two priorities, and local innovative projects and initiatives can attract the private sector. SMEs and entrepreneurs can be a source of innovation and solutions in developing the technology needed for building decarbonisation, and they can also promote energy saving in their offices. Some efforts have been made to support SMEs across countries, and recovery packages play a significant role in sustainable finance and in addressing climate challenges, but SMEs are often neglected in recovery packages (OECD, 2021^[2]). In leveraging recovery packages for energy efficiency in buildings, the needs of SMEs should be taken into account.

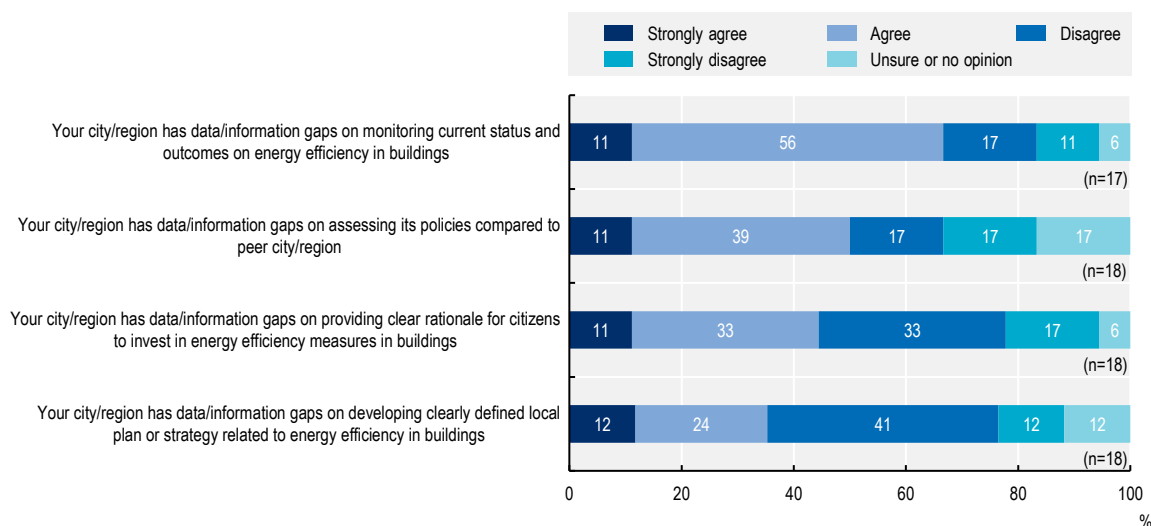
Figure 4.1. Obstacles faced by cities and regions in decarbonising buildings



Source: OECD Survey on Decarbonising Buildings in Cities and Regions.

A lack of data makes it hard to ascertain where cities and regions stand in terms of energy efficiency in buildings. Nearly 70% of respondents to the survey strongly agree or agree they have “data/information gaps on monitoring current status and outcomes on energy efficiency in buildings” (e.g. on energy consumption or buildings’ energy performance). About half of cities and regions also strongly agree or agree that they face “data/information gaps on assessing policies compared to peer city/region” (e.g. that they lack comparable data on policy framework conditions or energy efficiency outcomes) (Figure 4.2). This clearly shows the need for common monitoring indicators, both within and among countries.

Figure 4.2. Data and information gaps related to building decarbonisation

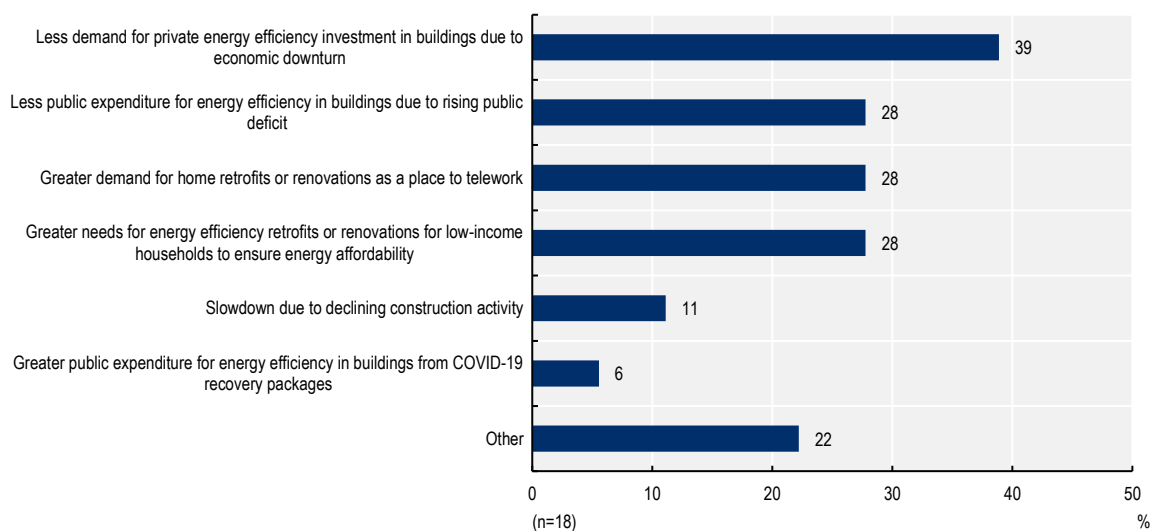


Source: OECD Survey on Decarbonising Buildings in Cities and Regions.

The impact of the COVID-19 crisis has been mixed on decarbonising buildings in cities and regions

The COVID-19 crisis could have both short- and long-term effects on real estate markets, through behavioural changes in working, commuting and shopping patterns. The COVID-19 crisis has had a mixed impact on energy efficiency improvements in buildings. Negative impacts cited by cities and regions include “Less demand for private energy efficiency investment in buildings due to economic downturn” (39%) and “Less public expenditure for energy efficiency in buildings due to rising public deficit” (28%), while positive effects include “Greater demand for home retrofits or renovations as a place to telework” (28%) and “Greater needs for energy efficiency retrofits or renovations for low-income households to ensure energy affordability” (28%). Only 11% reported a “Slowdown due to declining construction activity” and 6% reported “Greater public expenditure for energy efficiency in buildings from COVID-19 recovery packages”, which is low, considering the extensive plans for investment in national recovery packages (Figure 4.3). One explanation could be that it is still unclear how these investments and funding will be allocated. Considering the amount of funding needed to renovate urban buildings, the recovery packages need to provide clear guidance on how these resources will be distributed and allocate a significant amount to subnational governments. Some cities and regions included energy efficiency measures in buildings in their COVID-19 recovery plans or strategies, including providing financial incentives for construction and energy efficient renovations of private housing and public buildings. In the long run, cities and regions need to identify major impacts of the COVID-19 crisis on building decarbonisation and adjust their policies to changing policy environments.

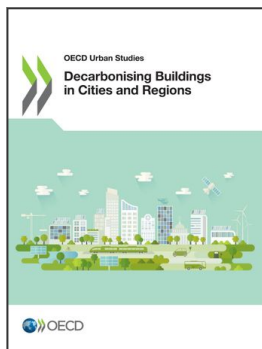
Figure 4.3. Cities' and regions' perception of the impact of COVID-19 on decarbonisation of buildings



Source: OECD Survey on Decarbonising Buildings in Cities and Regions.

References

- OECD (2021), "No net zero without SMEs: Exploring the key issues for greening SMEs and green entrepreneurship", *OECD SME and Entrepreneurship Papers*, No. 30, OECD Publishing, Paris, <https://dx.doi.org/10.1787/bab63915-en>. [2]
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