 <b>Regulatory Policy Committee</b>	<b>Opinion</b>	
<b>Impact Assessment (IA)</b>	Private Rented Sector Regulations	
<b>Lead Department/Agency</b>	Department for Energy and Climate Change	
<b>Stage</b>	Consultation	
<b>IA Number</b>	Not Provided	
<b>Origin</b>	Domestic/European	
<b>Expected date of implementation</b>	SNR 9	
<b>Date submitted to RPC</b>	07 April 2014	
<b>RPC Opinion date and reference</b>	21 May 2014	RPC14-DECC-2069
<b>Overall Assessment</b>	<b>AMBER</b>	
<p><b>RPC comments</b></p> <p>The IA will be fit for purpose, provided the Department addresses the points set out in this opinion. The IA should provide more detail regarding the assumptions made within the modelling, including in relation to financing costs, hidden costs, reinstallation, project life and property values. This will enable consultees to provide feedback on whether the assumptions and estimates are reasonable.</p>		
<p><b>Background (extracts from IA)</b></p> <p><b>What is the problem under consideration? Why is government intervention necessary?</b></p> <p><i>“Market failures and barriers within the private rented sector (PRS) impede the uptake of cost-effective energy efficiency measures. They include split incentives (the costs of energy efficiency improvements are borne by landlords, while the benefits – such as lower energy bills - accrue to current or future tenants); inertia among landlords or tenants; and imperfect information. The Green Deal and the Energy Company Obligation (ECO) partially overcome some of these barriers, particularly where there are long tenures. However, the current policy framework alone will not entirely overcome these barriers, as sitting tenants only receive a portion of the overall benefits associated with lower fuel bills and/or a warmer property, which may not be sufficient to overcome the ‘hidden’ costs associated with installing the measures. Improving the energy efficiency of the PRS is important as the domestic PRS has the highest proportion of the least thermally efficient properties of any tenure type, and a high proportion of people living in the PRS are in fuel poverty. The non-domestic PRS, meanwhile, has a large amount of cost-effective energy saving potential.”</i></p> <p><b>What are the policy objectives and the intended effects?</b></p> <p><i>“The policy intends to drive cost-effective energy efficiency improvements in the domestic and non-domestic PRS, which would not have occurred otherwise. These energy efficiency improvements will lead to: fewer greenhouse gas emissions, lower</i></p>		

energy bills (for households and firms), less fuel poverty, and lower overall energy demand. The policy will also lead to greater energy security, improved air quality, and a lower burden on the health service as a result of warmer homes.”

**What policy options have been considered, including any alternatives to regulation?**

*“Three policy options have been considered. Under the preferred option, from April 2018, landlords in the domestic and non-domestic PRS who are re-letting a property that requires an Energy Performance Certificate (EPC), and where the EPC rating is ‘F’ or ‘G’, must attempt to improve the rating to a minimum of an ‘E’. They can do this by either: taking out a Green Deal (provided the package meets the ‘Golden Rule’); using ECO funding (where available); or obtaining a local authority or government grant (or using a combination of these). The Regulations initially apply to PRS properties once they are let to a new tenant. However, a ‘regulatory backstop’ is proposed, which would come into effect several years after April 2018 to capture those PRS properties which have not been re-let since April 2018. At this point all landlords owning ‘F’- or ‘G’-rated properties covered by EPC Regulations must attempt to meet the standard. Alternative policy options consulted on differ from the preferred option by: (1) having no regulatory backstop; and (2) requiring all privately rented properties without exemptions to comply with the proposed Regulations from April 2018. In addition, under all options, from April 2016 landlords in the domestic PRS cannot unreasonably refuse tenants’ requests for consent to undertake energy efficiency improvements (the ‘tenants’ rights’). Non-regulatory approaches have been introduced in the past and there are other policies that currently incentivise uptake of energy efficiency measures. Evidence suggests that, despite these measures, the proposed Regulations are required to overcome PRS-specific barriers to improving the energy efficiency of these buildings.”*

**Identification of costs and benefits, and the impacts on business, civil society organisations, the public sector and individuals, and reflection of these in the choice of options**

The Department proposes to increase the uptake of cost-effective energy efficiency improvements in the privately rented sector of the property market. The proposed regulations will require landlords of the least energy-efficient properties to make improvements (from April 2018 and only once the sitting tenant moves out, and a new tenant moves in). In addition, in the domestic privately rented sector, from April 2016, landlords will not be able to refuse unreasonably a tenant’s request to make energy efficiency improvements to their rented accommodation.

The Department estimates that, for its preferred option, the most significant monetised costs to business will be the resource cost of installing the energy efficiency measures, and the finance cost of the Green Deal credit re-payments, with average annual costs of £1.1 billion and £0.4 billion respectively. In respect of these costs, the IA should explain why the finance costs, which are a transfer, have been included as a net cost. The IA should make more detailed reference in this analysis to how such effects were treated in earlier related impact assessments.

The main benefits will come in the form of reduced energy demand (£2.6bn), and the

resulting reduction in carbon emissions (£0.5bn). The average annual benefit of these impacts is estimated to be £2.6 billion and £0.5 billion respectively (page 3 of the IA).

The Department presents the estimated impacts of the proposal based on the outputs from its internal modelling. These outputs have been presented and explained clearly and will give a clear indication to stakeholders of the likely impacts of the proposal. However, the IA provides little detail regarding the inputs to this modelling so it is difficult to assess whether these estimates are robust. A specific area, for example, is the assumptions that have been used to calculate the hidden costs of installing energy efficiency measures. These include the hassle costs to landlords and tenants of arranging and managing visits by the assessor and installer. Without further information on how impacts such as these are assessed within the modelling, consultees will find it difficult to respond to and challenge these assumptions.

The IA says that the impacts of the appraisal have been appraised over a 57 year period. It appears this is likely to be based on the expected life time of the energy efficiency measures most likely to be employed. The IA would benefit from a clear explanation for this chosen appraisal period, along with more detail on the measures to be installed and their average life expectancy. The IA also says that the cost of re-installing certain measures has not been included in the analysis due to modelling constraints. We note that the Department intends to address this limitation for the final stage IA.

The IA includes an assessment of the likely increases in property values that are expected to result from the energy efficiency improvements in rented properties. The IA should provide a stronger and more detailed justification for this analysis, particularly given the resistance of landlords to take up these measures voluntarily, and also given individuals' general aversion to credit which may affect the attractiveness of properties with a Green Deal attached. It is not clear from the evidence presented in the IA that this element of the proposal should be considered a direct impact of the proposal, rather than a pass-through of benefit from tenants to landlords (in the form of higher rents, which are then capitalised into property values). The IA should discuss this in relation to the definitions of direct and indirect impacts in the Better Regulation Framework Manual (paragraphs 1.9.31 to 1.9.33).

The Department should also consider the likely impact on property values in the non-domestic sector, although it should be noted that any increase may, again, simply represent a transfer from business tenants to business landlords.

The IA should provide more detail regarding the assumptions made within the modelling, including in relation to financing costs, hidden costs, reinstallation, project life and property values. This will enable consultees to provide feedback on whether the assumptions and estimates are reasonable.

### **Comments on the robustness of the Small & Micro Business Assessment (SaMBA)**

The proposals increase the scope of regulation on business. A SaMBA, therefore, is

required.

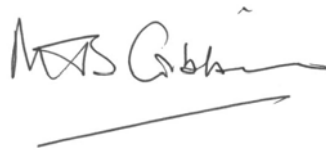
The Department is not proposing to exempt domestic landlords from the requirements on the basis that to do so would not deliver on the objectives of the proposal in any meaningful way. The Department explains that there “...is no robust estimate available for the number of landlords in England and Wales. However, the National Landlords Association represents around 1.4 million domestic landlords across the UK. Given most landlords only own one property [approximately 78% as per Table 18 of the IA], and therefore highly unlikely to require more than 49 staff, this suggests approximately 1.4 million small and micro businesses are affected by the Regulations. In contrast, very few medium or large businesses will be directly affected.” (paragraph 200 of the IA). The Department “...estimates that all domestic landlords should be classified as small and micro business for the purpose of this assessment, their exclusion would remove most if not all, of the intended benefits of the policy.” (paragraph 202 of the IA).

The Department does explain that “It has not been possible to estimate the number of small and micro businesses in the non-domestic PRS, as the data needed to make this assessment is not available.” The Department should use the consultation to acquire more evidence to inform such an assessment.

#### **Comments on the robustness of the OITO assessment.**

The IA says that this is a regulatory proposal which is net beneficial to business (an ‘IN’ with ‘Zero Net Cost’). Based on the information provided, this appears to provide a reasonable assessment of the likely impacts for this stage of policy development and is consistent with the current Better Regulation Framework Manual (paragraph 1.9.12). The main source of business benefits is in the non-domestic sector where many of the tenants are businesses, as well as the landlords. However, the Department needs to justify its treatment of an increase in property values in the domestic sector as a direct benefit to business. The finalised assessment, supported by evidence gathered during the consultation, will need to be validated by the RPC at final stage.

**Signed**



**Michael Gibbons, Chairman**