



Committee on Fuel Poverty

The PRS Minimum Standards Team
Department for Business, Energy & Industrial Strategy
1 Victoria Street
London
SW1H 0ET

13th March 2018

Dear PRS Minimum Standards Team,

DOMESTIC PRIVATE RENTED SECTOR – MINIMUM LEVEL OF ENERGY EFFICIENCY

On behalf of the Committee on Fuel Poverty (CFP), please find below our response to the consultation on amending The Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 in relation to domestic properties.

The CFP is an advisory Non-Departmental Public Body whose role is to advise the Government on policies aimed at reducing fuel poverty in England. You can find more background on the CFP, including its remit and latest annual report, [here](#). Details of the members of the Committee are [here](#).

Question 1: *Do you agree with the policy proposal under consideration here to introduce a landlord contribution element where funding is unavailable to ensure improvements to Band F and G properties can be delivered (unless a valid exemption applies)? This would be subject to a cost cap.*

If you do not agree, what are your objections, and how do you recommend the energy efficiency minimum standard should be achieved, given the current funding climate? Please provide reasons and evidence where available to support your views.

We agree that where alternative sources of funding are not available there should be an obligation for landlords to use their own funds to improve the energy efficiency of their property/properties to ensure that their tenants can enjoy a modern level of comfort that should be expected and experienced by all, regardless of their personal circumstances.

Landlords are operating a business and should be obligated to provide homes that are affordable to heat. The BEIS Impact Assessment (BEIS033(C)-17-HLE) shows that landlords can both afford to make the necessary investment in energy efficiency measures and will also benefit financially from the resultant increase in capital value of their properties:

A 2013 study by the Strategic Society Centre ("[Understanding Landlords - a study of private landlords in the UK using the Wealth and Assets Survey](#)") – derived from the nationally representative dataset: the Wealth and Assets Survey 2008-10) suggested that:

- i. PRS Landlords had greater financial wealth than both non-landlord homeowners and the general adult population, with over a quarter (26%) holding £70,000 or more.

This can also be shown by the mean and median value of total financial assets held by PRS Landlords, which was £75,103 and £20,500 respectively, over twice as high as the figures for non-landlord homeowners (£36,934 and £8,105 respectively) and all adults aged 16 or more (£22,981 and £2,300 respectively). This indicates that PRS Landlords have access to a significant amount of financial wealth in addition to the value of the properties they own.

- ii. Energy efficiency improvements can benefit landlords too in the form of reduced long term property maintenance costs, increased rentability, increased tenant satisfaction, reduced void periods and ultimately in increased sale value of the property.

A number of studies both from abroad and the UK have shown a robust link between higher standards of energy efficiency and increased property values. For example, a study for the UK found that EPC Band D-rated homes commanded a 10% sale premium compared to F or G-rated homes (as noted in the Impact Assessment, “Amending the Private Rented Sector Minimum Energy Efficiency Regulations – Consultation Stage Impact Assessment IA No: BEIS033(C)-17-HLE”).

Question 2a: *Do you agree that a cost cap for improving sub-standard domestic private rented property should be set at £2,500?*

If you do not agree, what would be the most appropriate level to set the threshold? Please provide reasons and evidence where available to support your views.

Our view remains the same as we stated in our 2017 Annual Report.

We do not agree that the cap should be set at only £2,500. We strongly believe that the evidence is clear that significantly more households in fuel poverty will receive more direct benefit by increasing the cap to £5,000, thereby improving their quality of life. **It should be noted that BEIS Fuel Poverty Statistics 2017 (2015 data) show that there are 278,000 fuel poor households living in Band F/G properties. Of these, 122,000 (44%) are Privately Rented Properties. Therefore, to achieve the fuel poverty strategy milestone of as many as reasonably practicable fuel poor properties at Band E by 2020, it is imperative that Government introduce strong and effective measures to upgrade the energy efficiency of these 122,000 privately rented properties. The proposed £2,500 cap will not achieve the 2020 milestone.**

The government’s own figures estimate that 121,200 more properties will have been insulated by 2020 with a cap of £5,000. The Governments favoured option of a cap of £2500 would only upgrade 30% of Band F/G properties to Band E or above versus the projection from the 2014 PRS Legislation to upgrade 73%.

A cap level of £5000 could lift a further 12% of properties out of fuel poverty. Furthermore the average capital cost remains only £1,700 for those achieving Band E with the Government’s impact assessment suggesting a further 139,700 measures would have been installed with the higher cap.

Even with the higher £5,000 cap, the Impact Assessment IA No: BEIS033(C)-17-HLE still only indicates that 42% of Band F/G properties will achieve a Band E rating. The cost of installing measures for the £2,500 and £5,000 caps are shown as NPV £323 million and £613 million respectively. The original 30/01/15 Impact Assessment (Final Stage Impact Assessment for the Private Rented Sector Regulations DECC0168) for these regulations

predicted 73% of properties will be upgraded to Band E with a total NPV £321 million cost of installing measures. **We strongly urge that a full analysis is undertaken to understand why the revised Impact Assessment is only showing that for a £323 million cost of investment only 30% of properties are being upgraded to Band E, whereas in the 30/01/15 Impact Assessment 73% were upgraded to Band E for an almost identical investment. It would appear that placing cost caps on investment limits is causing a substantially sub-optimal set of energy efficiency measures to be installed.**

It is also worth noting that the estimated average energy bill saving experienced by tenants under a cap of £5000 is significantly higher when compared to that achieved with a £2500 cap **at £188 per annum – some £93 higher.**

As clearly shown in the impact assessment, there is also a direct link between cold inefficient homes and poor health outcomes for the tenants of such properties. **As such we believe that this fact alone should ensure Government action benefits the highest number of tenants.**

Access to modern levels of comfort for tenants of properties in Band F/G, should come before other considerations.

There are about 25,000 Excess Winter Deaths each year in England. Public Health England quote a study by Wilkinson et al., "[Cold comfort: The social and environmental determinants of excess winter deaths in England, 1986-96](#)", which estimates that 20% EWDs attributable to the coldest quarter of homes and 10% attributable to fuel poverty.

Question 2b: *Do you agree that a cost cap for improving sub-standard domestic private rented property should be set inclusive of VAT?*

We consider this to be acceptable for those landlords not registered for VAT.

Question 3: *Do you agree that a cost cap should not take account of spending on energy efficiency improvements incurred prior to 1 October 2017?*

If you do not agree, what would be the most appropriate way of taking account of previous spending on measures which have failed to raise a property above EPC F or G? Please provide reasons and evidence where available to support your views.

We agree that a cap should not take into account pre-1 October 2017 spending.

Question 4: *Do you agree with the proposal that where a landlord contributes to the improvement, the cost cap threshold should be inclusive of any funding which can be obtained through a 'no cost' finance plan (including a Green Deal finance plan), Supplier Obligation Funding (for example, ECO: Help to Heat or a successor scheme), or energy efficiency grant funding from a Local Authority or other third parties?*

If you do not agree, please provide reasons and evidence where available to support your views.

We do not. We firmly believe that the cap should be exclusive of any additional funding from schemes such as ECO.

It is imperative that landlords are required to invest their own funds in their properties, if we are to achieve the 2020 Band E fuel poverty milestone. The BEIS [2017 Fuel Poverty Statistics](#) include the projection that there will still be 175,000 Band F/G fuel poor homes in March 2019. The CFP identified that to meet the 2020 Band E fuel poverty milestone, an additional £900 million of energy efficiency measures would be required. Even if post-March 2019 ECO funding was highly focused on delivering the fuel poverty strategy, it would only supply £400 million (CFP 2017 Annual Report).

There is a need to ensure that options to invest in high-cost, high-impact energy efficiency measures such as new boilers, central heating and internal wall insulation are opened up. These measures were selected in the Impact assessment for the original legislation (DECC0168) but many are now precluded by the proposed low absolute £2,500 cost cap (and even with a higher £5,000 cap). Given that the Clean Growth Strategy discusses the potential of extending the PRS energy efficiency measures to reach Band D by 2025 and Band E by 2030, it should be pointed out to landlords that jumping a Band F/G property straight to Band D now, may avoid them having to invest further of their funds at a later stage (e.g. between 2020 and 2025). This could be done by encouraging Landlords to utilise ECO funds for energy efficiency investments that exceed the £5,000 cost cap. This would open up the options to install high investment cost energy efficiency measures such as first time central heating and solid wall insulations. The Impact Assessment states that costs are as follows:

Solid wall insulation (external):

Small Flat	£5,565
Large Flat	£7,035
Small Semi-detached House	£8,190
Large Semi-detached House	£8,820
Small Detached House	£10,710
Large Detached House	£12,075
Small Mid-terrace House	£7,140
Large Mid-terrace House	£7,875

Heating

	12kw/28kw capacity:
Gas Boiler	£2,173/£3,527
Gas with first time central heating	£3,079/£4,999
Oil Boiler Upgrade	£3,584/£5,346
Oil with first time central heating	£4,320/£6,445
Storage Heaters	£1,412/£2,492

Question 5: *Do you agree that it is not necessary to place a regulatory duty on energy suppliers, or their agents, to provide landlords with cost information relating to the value of energy efficiency improvements made to the landlord's property through a supplier obligation?*

We agree, however, it seems reasonable that energy suppliers should share the cost of measures being installed in a particular property. This should especially be the case where the landlord is being asked to contribute funds.

Question 6: *Where a landlord is intending to register a 'high cost' exemption, should the landlord be required to provide three quotes for the cost of purchasing and installing the measures, in line with the non-domestic minimum standards?*

If you do not agree, please provide reasons and evidence where available to support your views.

Yes, landlords should be required to provide three quotes for the cost of purchasing and installing the measures, in line with the non-domestic minimum standards. We would also suggest Government consider legislation for landlords to reduce rent payable if they do not bring their properties up to Band E. This would help tenants afford their energy bills.

Question 7: *Do you agree with the proposal to limit the validity of any 'no cost to the landlord' exemptions (under Regulation 25(1)(b)) registered between October 2017 and the point at which a capped landlord contribution amendment comes into force?*

If you do not agree, what are your objections, and how do you recommend that the minimum standard regulations be amended to ensure the energy efficiency improvements are delivered to such properties which might otherwise be left unimproved once the amended regulations came into force? Please provide reasons and evidence where available to support your views.

We agree.

Question 8: *Do you have views on whether the consent exemption under Regulation 31(1)(a)(ii) should be removed from the minimum standard regulations or retained?*

Please provide reasons and evidence where available to support your views.

The exemption should be removed.

Question 9: *Do you have any comments on the policy proposals not raised under any of the above questions?*

We reiterate our views that there should be a mandatory national database of properties in the private rented sector. This could be self-financing from fees levied on Landlords and feed into a national database. While we accept that at local authority level there are resource issues, the fact that local authorities can now keep funds arising from enforcement action should help to alleviate some of these. This approach would also complement the existing Health and Safety Rating System (HHSRS) which already requires landlords to improve properties that are found to pose a risk to their occupants.

Additionally, a national mandatory database could also have wider benefits across Government and society.

Question 10a: *Do you have any evidence or comments regarding the consultation impact assessment (including views on any of the assumptions we have made to support our analysis), which could inform the final stage impact assessment?*

The IA NPV calculations, upon which the £2,500 cap was selected, do not show the economic benefits of energy efficiency measures for the tenant and also exclude some important economic benefits for the landlord. As the calculated NPV forms the dominant basis for the cap's selection criteria, we recommend that the following amendments to NPV calculations are made so that the cost cap can be selected based on a holistic picture from all stakeholder perspectives:

- i. The landlord's resultant appreciation in property value from installing the energy efficiency measures should be included. The Impact Assessment notes that capital gains are expected to be the key driver of investment in the Private Rented Sector so therefore, capital appreciation from installing energy efficiency measures should be measured and taken into account in the economics.
- ii. The IA should take into consideration the benefits of these regulations on achieving Government's Fuel Poverty Strategy. NPV cases should also be run using retail energy prices. Whilst we understand that the NPV calculations contained in the IA reflect the economic benefits for 'UK PLC', the use of Long-run Variable Costs of Energy significantly underestimates the tenant's retail cost energy cost savings by a factor of 2:

Forecast energy costs

Treasury Green Book central price for 2025	Retail	Long Run Variable Cost
Electricity p/kwh	19.88	11.03
Gas p/kwh	4.57	2.06
Oil p per litre	46.1	40.5
Oil p/kwh	4.50 (note: converted to p/kwh at 10.25kWh/ltr)	3.95 (note: converted to p/kwh at 10.25kWh/ltr)

(Source: [Green Book supplementary guidance: valuation of energy use and greenhouse gas emissions for appraisal - Supplementary guidance to Treasury's Green Book providing government analysts with rules for valuing energy usage and greenhouse gas emissions.](#))

If retail energy prices are used, it would show that (for the tenant), a much higher cost cap would be justified. Making this revision would emphasise that the PRS regulations are aimed at both achieving carbon commitments and alleviating the damaging health and welfare effects of fuel poverty. This approach to use retail prices would also be consistent with the aspirations of the Clean Growth Strategy to upgrade all homes to Band C by 2035, as it shows the true retail value of energy savings and therefore justifies a higher investment by the owner of the property.

- iii. The IA should also take into account the wider impacts such as the cost to the NHS of treating illnesses related to cold, damp unhealthy homes.

Question 10b: *Do you have any evidence or information on the potential for these proposals to impact on the PRS market, including any potential for landlords who are required to act by the minimum standard regulations to pass through costs to tenants after making*

improvements to their properties?

Firstly, while we do not have any evidence around the possible impact on rents we would make the point that it seems reasonable and fair to expect landlords to not only look after their assets but also wherever possible to ensure their tenants benefit from modern standards of comfort. Of course such improvements are most likely to add to their asset value and “rentability” as a result of improvement work.

Secondly, we believe there is a limit on the extent to which landlords would be able to raise rents as a result of the PRS regulations. The IA notes that the majority of landlords are already charging the maximum rent that tenants are willing to pay. Any concern about possible increased rents should be balanced against the fact that many Band F/G tenants are already paying a ‘hidden rent’ of over £1,000 per year in additional energy bills, as a result of the low energy efficiency levels of the properties.

In addition to a cap of £5000, Government should give serious consideration to re-opening the Landlords Energy Saving Allowance tax relief scheme (LESA). This would provide a significant carrot for landlords to act, against the stick of the cap.

While in 2013 the LESA scheme only saw .15% of landlords take up the scheme we would expect take up to be much higher with an enforceable obligation for landlords to improve their property in place.

Question 10c: *Can you provide any evidence on the likely costs associated with the compilation of evidence in advance of registering an exemption on the PRS Exemptions Register?*

No.

If you have any questions about the above, or wish to discuss this further, please email cfp@beis.gov.uk.

Yours sincerely,



David R Blakemore
Chair, Committee on Fuel Poverty