



Department for
Business, Energy
& Industrial Strategy

The Non-Domestic Private Rented Sector Minimum Energy Efficiency Standards

Implementation of the EPC B Future Target

Closing date: 9 June 2021



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General information

Why we are consulting

We published a consultation in 2019 on how best to improve the energy performance of non-domestic private rented buildings through tighter minimum energy standards. We set out the Government's preferred option to set a long-term trajectory that would require all non-domestic rented buildings to meet an EPC B by 2030.

Given the significant support for the EPC B option, we are now consulting on the framework to implement this new requirement and improve the compliance and enforcement process. The Government has listened to stakeholder feedback and is committed to ensure the policy can be delivered in practice. That will ensure vital energy and carbon savings and support the path to net zero.

Consultation details

Issued: 17 March 2021

Respond by: 9 June 2021

Please do not send responses by post to the department during the coronavirus pandemic (COVID-19), as we will not be able to access them.

Enquiries to:

Tel: 020 7215 5000

Email: businessenergyuse@beis.gov.uk

Consultation reference: The Non-domestic Private Rented Sector Minimum Energy Efficiency Standards - EPC B Future Trajectory Implementation

Audiences:

Landlords, tenants, local authorities and the supply chain (energy efficiency installers, non-domestic energy Assessors etc.); anyone affected by or concerned by raising energy performance standards in the non-domestic private rented sector and those representing the interests of the sector.

Territorial extent:

England and Wales only.

How to respond

The use of Citizen Space is the preferred response method.

Respond online at: <https://beisgovuk.citizenspace.com/heat/ndprs-mees-epcb-future-trajectory-implementation/>

or

Email to: businessenergyuse@beis.gov.uk

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018, and the Environmental Information Regulations 2004).

Please tell us if you want the information that you provide to be treated as confidential but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the Government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Glossary

BEIS	The Department for Business, Energy and Industrial Strategy
EPB Regulations	The Energy Performance of Buildings (England and Wales) Regulations 2012 (SI 2012 No. 3118) that set out the requirements for EPCs.
EPC	Energy Performance Certificate
Fitout	Process of installing and furnishing empty premises with equipment and appliances (such as lighting, heating, and ventilation) as well as final decoration so the premises are in an occupiable state.
PRS	Private Rented Sector
PRS Regulations	The Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (SI 2015 No. 962) apply to the private rented sector where domestic and non-domestic properties are required to meet minimum energy efficiency standards.
MEES	Minimum Energy Efficiency Standards

Executive Summary

In 2015, in the PRS Regulations, the Government introduced minimum energy efficiency standards (MEES) to improve the worst performing buildings in both the domestic and non-domestic stock. In October 2019, the Government consulted on proposals that would tighten the non-domestic MEES to set a long-term regulatory target of EPC B by 2030, or the highest EPC band a cost-effective package of measures could reach. This is an ambitious target, that will drive clean growth and reduce emissions across the non-domestic rental building stock.

The PRS Regulations were introduced, and will be strengthened, to ensure that landlords of non-domestic properties continue to invest in the quality of their buildings. Under the proposals set out in the 2019 consultation, around one million non-domestic buildings should be improved by 2030. This will deliver buildings which are cheaper to run for tenants, are responsible for fewer carbon emissions, and are closer to being able to accept low-carbon heating systems. As the UK battles to beat COVID-19, all of those benefits will allow the UK economy to build back greener, and to thrive, as we accelerate toward a net-zero future by 2050.

By consulting in 2019, the Government provided the industry with early sight of an upcoming future regulatory target. This was to ensure there was appropriate lead in time to enable investors, owners, landlords and tenants to plan and implement the required works as part of their normal tenancy cycles.

Based on the widespread support to the approach the Government set out in the consultation, **the Government confirmed in the Energy White Paper that the future trajectory for the non-domestic MEES will be EPC B by 2030.**¹ This is estimated to cover around 85% of the non-domestic rented stock, deliver up to 10.3TWh in energy savings by 2030, and 4.1MtCO₂e of carbon (non-traded) over Carbon Budget 5 (2028-2032).

A large number of respondents highlighted that, whilst the Government's ambition is appropriate, there are significant implementation issues that should be addressed to enable the policy to be successful. This conclusion was supported by the Government's pilot study, which ran from 2018-2019 and looked at how the enforcement of the PRS Regulations could be improved.

The Government supports this assessment. This consultation sets out proposals to improve the implementation and enforcement of the EPC B requirement.

Chapter 1 reviews the feedback received from consultation responses and BEIS Enforcement Pilot, and summarises the key concerns raised. This feedback included the need to:

- improve the implementation of the payback test and general enforcement of the PRS Regulations

¹ [Energy white paper: Powering our net zero future](#)

- improve how the PRS Regulations currently apply to older buildings and to premises rented in a shell and core state
- better align the EPC requirements with the PRS Regulations
- focus on operational performance

Chapter 2 outlines the proposed new framework for implementing an EPC B trajectory to:

- phase in the requirement with an interim milestone of EPC C in 2027 to ensure early action is taken by the market
- introduce a compliance window approach designed to simplify compliance and enforcement
- move away from enforcement at the point of let, and introducing a temporary 6-month exemption to address the challenges of compliance for shell and core premises

Chapter 3 seeks views on proposals to strengthen enforcement and on amendments to existing exemption requirements to support the new framework through:

- encouraging compliance by placing a requirement on letting agents and online property platforms to only advertise and let properties compliant with the PRS Regulations; requiring landlords to provide an EPC prior to a property being advertised; and introducing a property compliance and exemptions database
- assisting local authority enforcement of the PRS Regulations through a number of proposals including: enabling local authorities to inspect properties; investigate options for local authorities to access bulk EPC Data; and introducing requirements for pre and post-improvement EPCs
- tightening exemptions by amending the validity period of exemptions to require a review at each compliance window, and introducing a standardised payback calculator to determine cost-effective measures

Chapter 4 invites views on how smart meters could play a role in supporting landlords to meet the PRS Regulations as part of the next phase of smart meter rollout.

The Government is planning to publish the Government Response to this consultation, and the 2019 consultation later this year, and then lay amending regulations (that would amend the PRS Regulations).

The Government has also consulted on proposals to improve the energy performance of the domestic private sector under the PRS Regulations². This may also lead to amendments to the PRS Regulations.

² [Improving the Energy Performance of Privately Rented Homes](#)

Introduction

In June 2019, the UK government became the first major economy to legislate for net zero greenhouse gas emissions. This target requires the UK to bring all greenhouse gas emissions to net zero by 2050, compared to the previous target of at least an 80% reduction from 1990 levels. In addition, the UK has interim Carbon Budgets, which require a 57% reduction in emissions from across the UK economy by 2032, as well as ambitions to reduce business energy use by 20% by 2030 under our Clean Growth Strategy.³

In 2020, national lockdowns were put in place across the globe. This is a challenging time for many people and businesses over this period. As life returns to normal in a post-Covid world, the Government will support business recovery and use this as an opportunity to build the economy back greener. We cannot continue with a business as usual approach, and long-term planning is needed now if we are to achieve net zero. In November, the Prime Minister set out a bold vision in his ten-point plan for how the UK can lead the world and accelerate our path to net zero.

Large-scale action in all sectors of the economy will be required, including tackling emissions generated by the building stock, which accounts for 31% of our national emissions.⁴ Energy efficiency is vital in reducing emissions, and in preparing non-domestic buildings for low carbon heat. It is one of the most cost-effective ways in which businesses can reduce their energy use and lower the associated bills in the buildings they occupy, improving the productivity of UK businesses and the security of the UK energy supply.

The Energy Efficiency (Private Rented Property) (England and Wales) Regulations (the 'PRS Regulations') set a minimum energy efficiency standard (MEES) of EPC E for private rented properties. The requirement that a property must be EPC E has applied since 1 April 2018 to properties let on new tenancies (including renewals), and from 1 April 2023 will apply to all privately rented properties (even where there has been no change in tenancy).

The PRS Regulations were introduced to incentivise energy efficiency improvements in the non-domestic private rented stock, with the aim of improving the worst performing properties. However, the Government is committed to driving further action across the rented building stock and support the market in the transition to net-zero by setting a tighter long-term regulatory requirement.

The Government launched a public consultation on proposals to amend the PRS Regulations to raise MEES, which ran from October 2019 until January 2020.⁵ The Government's preferred option was to require all non-domestic rented properties to meet a minimum EPC B requirement by 2030, where it is cost effective to do so. This has the potential to deliver

³ [Clean Growth Strategy 2017](#)

⁴ Department for Business, Energy & Industrial Strategy internal analysis of [BEIS, Building Energy Efficiency Survey \(BEES\), 2016](#) (hereafter referred to as 'BEIS, BEES') and [Non-domestic National Energy Efficiency Data-Framework](#) (hereafter referred to as 'BEIS, ND-NEED')

⁵ [Non-domestic Private Rented Sector minimum energy efficiency standards: future trajectory to 2030](#)

savings of up to 10.3TWh in energy by 2030, and 4.1MtCO₂e of carbon (non-traded) over Carbon Budget 5 (2028-2032).⁶ Our modelling suggests bill savings to business in 2030 would be around £1 billion. In total, we anticipate that the trajectory would deliver an overall net present value of £2.5 billion to the UK economy. A technical annex is included at the end of this document to provide an update on the underlying assumptions to our policy model published in the 2019 consultation impact assessment.⁷

We received 83 responses to the 2019 consultation from a variety of organisations and individuals. The majority supported both the EPC B target (91%) and 2030 being the date for the EPC B requirement to come into force (86%).

The PRS Regulations form part of a wider set of Government policies to improve energy efficiency and enable the mass transition to low-carbon heat. Rented buildings make up 61% of the total non-domestic stock in England and Wales, and account for 37.5% of the total emissions from non-domestic buildings.⁸ Higher energy performance standards to improve the energy efficiency of buildings in the non-domestic sector will be an essential enabler for the deployment of low carbon heating technologies.

The Government has consulted separately on proposals to improve the energy performance of privately rented homes under the PRS Regulations.⁹

Why we are consulting again

The Government consulted on the long-term trajectory on non-domestic MEES to provide over a decade of lead in time, and clear sight of our thinking on the policy. The previous consultation sought views on how the long-term trajectory could be introduced in an effective way and work with existing market practices. Alongside the 2019 consultation the Government ran a pilot with seven local authorities to determine how the PRS Regulations can be most effectively enforced.

Although responses to the consultation were overwhelmingly supportive of the EPC B target, the feedback also reinforced the Government's understanding of some of the challenges around compliance and enforcement. We have listened to stakeholder responses and are now acting on that feedback through this consultation.

In this document we have set out proposals for how to improve implementation of the EPC B by 2030 requirement, and address stakeholder concerns to ensure this can be delivered in practice. This includes simplifying the compliance process and strengthening enforcement, so the PRS Regulations work with how the industry and local authorities operate in reality.

⁶ Figures for policy savings have been revised to reflect updated cost assumptions and presents our lead option for an EPC C interim milestone in 2027. See Technical Annex.

⁷ [Consultation Stage Impact Assessment for amending the Private Rented Sector Regulations, 2019](#)

⁸ Department for Business, Energy & Industrial Strategy internal analysis of BEIS BEES and BEIS ND-NEED

⁹ [Improving the Energy Performance of Privately Rented Homes](#)

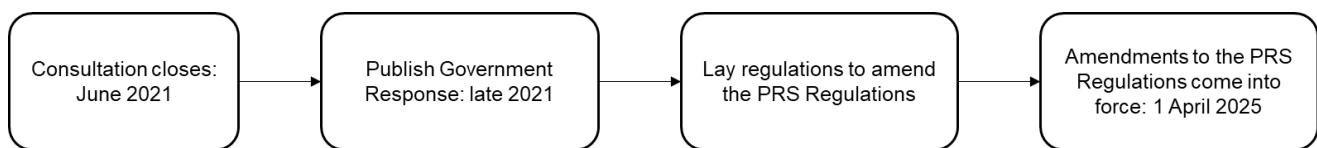
We invite your views on this consultation by **9 JUNE 2021**.

Next Steps

Responses to this consultation will inform the legislative changes. Some proposals will require seeking primary powers before they can be put into effect.

We aim to publish the Government Response later this year along with updates on any changes to the timeline of when the new requirements are expected to come into force.

Figure 1: Illustrative timeline of current plans to make regulations to amend PRS Regulations¹⁰



¹⁰ This timetable relates to amendments to the PRS Regulations. Some of the compliance and enforcement proposals will require the making of new primary powers, which are likely to take longer to implement.

Chapter 1: Consultation feedback on setting a trajectory to EPC B

Overview

The Government was encouraged to receive 83 responses to the 2019 consultation from across the industry. Many of these responses noted the positive impact that the PRS Regulations has had on the sector. Respondents reported that MEES have raised the profile of energy efficiency, with landlords increasingly factoring energy performance improvement into their refurbishment cycles.

The Government was reassured that its preferred option to raise the future requirement to EPC B by 2030, where cost effective, was overwhelmingly supported by respondents. The Government's level of ambition was widely praised, with only 4 of 83 respondents feeling that EPC B was an inappropriate target. In terms of allowing enough lead in time, 59 out of the 83 respondents felt that 2030 was a suitable deadline to allow industry to meet the requirement.

However, in almost every response, representatives from across the sector stated that enforcement and implementation of the policy would need to be improved for it to be successful in the 2020s, especially considering that the EPC B requirement will see the proportion of the non-domestic rented stock within scope of the PRS Regulations increase from around 10% to around 85%.¹¹ The main issues that stakeholders felt the Government needed to address were:

- enforcement of the policy should be improved
- the PRS Regulations do not currently work well for sectors that frequently rent buildings / units in a shell and core state
- the PRS Regulations currently place the whole regulatory obligation on the landlord, which does not encourage a collaborative approach between landlords and tenants to making energy efficiency improvements
- the PRS Regulations could work better for older buildings
- the implementation of the seven-year payback test could be improved

The Government supports this assessment of the improvements needed. The proposals for an improved approach to implementing the EPC B minimum energy efficiency standards are set out in Chapter 2 and 3. Before discussing the proposed changes, this chapter discusses the impact the existing issues have on delivering the Government's current and future policy aims. Responses to the consultation are briefly summarised in this document. A full summary of

¹¹ BEIS internal analysis of [BEIS BEES](#) and [EPC data](#) published by MHCLG. 10% of the stock is estimated to be currently below EPC E.

responses will be published in 2021, through the Government's formal response to both this and the 2019 consultation.

Enforcement

Under the existing PRS Regulations, every local weights and measures authority is the “enforcement authority” for their area. Enforcement authorities can decide how they wish to enforce the PRS Regulations, for example through Trading Standards Officers or Environmental Health Officers.

Proper and effective enforcement will play a key part in ensuring the success of the current and future MEES in the non-domestic private rented sector.

Alongside the 2019 consultation, the Government funded a one-year pilot study looking at how successful current enforcement arrangements are, as well as aiming to understand where improvements could be made. The study was focused on developing processes to identify non-compliant properties and their landlords, creating communication and engagement strategies to raise awareness of, and compliance with, the PRS Regulations amongst landlords, tenants and other market players, as well as putting enforcement processes in place.

Phase one of the study concluded in March 2020, with the main conclusions summarised below.

Pilot study findings

The challenges of enforcement were largely similar across both the domestic and non-domestic sectors. The points below summarise the high-level concerns found by the pilot that the Government's proposals look to tackle as set out in Chapters 2 and 3:

It is currently a highly resource intensive task to identify properties which are potentially non-compliant, including confirming the landlord details to enable enforcement action to be taken against them.

The ‘identification of properties which are potentially non-compliant’ means understanding which properties have an EPC below an E, or which properties do not have an EPC but should. Local authorities require access to good quality and up-to-date data, which is currently either not easy to access, or often not available. Local authorities also require the in-house ability to analyse and cross match datasets. Local authorities have found it difficult to free up the required time and resource to begin this process.

After non-compliant buildings have been identified it is difficult to enforce at the point of let / lease renewal.

Requiring a building to meet an EPC E standard before it can be let, or have the lease renewed, leaves local authorities with a very small time window in which to act. More likely, the

lease will go ahead, and local authorities are in the position of having to try to understand when the building was let, and what its EPC was at that point, in order to enforce retrospectively. This is difficult and resource intensive.

The PRS Regulations leave scope for local authorities to implement an enforcement approach that works for the local area, but taking a bespoke approach can be time consuming and resource intensive.

The Government considers that it is right that local authorities, as the enforcement body, are able to interpret the regulations and ensure their enforcement activity is suitable for their local conditions. However, the Government is committed to removing unnecessary uncertainty from the PRS Regulations where it does not benefit the local authority or the landlord. For both parties, unnecessary uncertainty can result in spending additional time looking at an individual case or spending money on legal fees.

In Chapters 2 and 3 the Government has set out proposals that attempt to balance the need to standardise the process and remove unnecessary ambiguity, whilst also providing local authorities with the necessary flexibility to enforce the PRS Regulations.

Consultation responses

As part of the 2019 consultation, the Government also sought views on how the enforcement of an EPC B or C by 2030 requirement could be improved.

Stakeholder views on issues around enforcement largely concurred with the findings and conclusions from the pilot study. While views on how enforcement could be improved were varied, a recurring comment was the need for local authorities to be adequately resourced and have the right skills.

The lack of information to enable enforcement was also raised by respondents. Some suggested the use of a central register, or a requirement that landlords and market actors notify local authorities of lease events, to close this gap.

The issue of the regulations requiring enforcement at the point of let or lease renewal was raised in responses to the consultation as well. This is a sensible approach in concept, but has proved difficult to implement successfully. There are many actors in the market chain that could help ensure that the point of let or lease renewal is an effective juncture for enforcement. For example, agents could refuse to put a non-domestic building on the market unless it is an EPC E or has a valid exemption. Similarly, lawyers could refuse to close agreements.

However, when used as the primary method of enforcement for local authorities, the approach can be counterproductive. This is due to the short timeframe in which local authorities are required to enforce the policy, and the layers of complexity this adds to the enforcement process when looking at an individual case retrospectively to identify the point of let or renewal.

The consultation responses also corroborated the findings from the enforcement pilot around the challenges of data collection and identification of non-compliant properties.

BEIS Enforcement Pilot – Phase 2

Following the conclusion of the first year of the enforcement pilot study in March 2020, the Government is currently conducting a second round of pilots with a new set of twelve local authorities to test, develop and refine the findings from the first year of the study, with a focus on the domestic sector. The second phase of the study commenced in July 2020 and is due to conclude in 2021. The Government plans to share the findings of the pilot study with all local authorities in England and Wales in the form of an advisory best-practice toolkit on monitoring, compliance, and enforcement of the minimum energy efficiency standard. Relevant learnings are also to be applied across to the non-domestic sector.

The PRS Regulations do not currently work well for sectors that frequently rent buildings / units in a shell and core state

The practice of renting a building or unit in a shell and core condition, where the unit has been let without any fittings, is common in the retail, office, and some industrial sectors. Rather than occupy a furnished property, the tenant taking over the premises will furnish it to suit their individual needs. This usually includes adding installations such as: lighting and heat, ventilation, and air conditioning. The fitout will therefore have a significant impact on the EPC rating. Typically, these units are required to be returned to their original shell and core condition at the end of the tenancy.

Due to the current PRS Regulations being enforced at the point of let, the landlord cannot lease the building until it has reached the minimum standard of an EPC E. In addition to the problems highlighted above for local authorities, respondents confirmed that this has created the following compliance issues for landlords and tenants in these types of lets.

A property let in a shell and core condition is unlikely to meet the current minimum energy efficiency standard of EPC E, let alone the higher EPC B requirement. This can create situations whereby to satisfy the PRS Regulations the landlord may need to install measures that the tenant may want to immediately remove.

Pre-tenancy agreements, whereby the tenant pays for the fitout before legally becoming the tenant, are an imperfect solution. A building furnished by a tenant to modern standards will often ensure premises meets the current EPC E requirement. As the landlord cannot let the building out until it is an EPC E, a 'Agreement for Lease' can be sought, whereby the tenant pays for the fitout of the premises before they legally become the tenant. Given the level of risk assumed by the tenant, this is not a perfect solution and not one that every tenant would be comfortable using.

Combined, our analysis suggests the sectors where this is prevalent make up 66% of non-domestic private rented properties and therefore has a significant impact on compliance with

PRS Regulations.¹² Compliance issues for the shell and core sector need to be resolved if we are to meet our policy objectives.

The current PRS Regulations place the whole regulatory obligation on the landlord, which does not encourage a collaborative approach to energy efficiency improvements

Another factor which respondents felt exacerbated the shell and core issue is that landlords are the sole responsible party for compliance with the PRS Regulations.

The result is that landlords felt they currently have limited levers to place requirements on tenant fitouts to meet MEES. The PRS Regulations place the responsibility of compliance on the landlord. Landlords and tenants can negotiate a pre-tenancy agreement to allow tenants to fitout ahead of legally granting a tenancy. As previously noted this is an imperfect solution. Under a tightened EPC B trajectory, tenants would need to increase investments to meet this higher standard which they are not obligated to do. This presents landlords with challenges during lease negotiations whereby tenant lawyers will often reject any requirements placed on the tenant that is not specified under regulations. Some stakeholders felt that changes to legislation and supporting guidance is needed to make it possible for landlords to pass on the obligation of MEES to tenants.

The PRS Regulations could work better for older buildings.

Several respondents raised that there is some confusion surrounding the EPC and MEES requirements for older buildings. Specifically, whether listed buildings would be required to obtain an EPC, and therefore be within scope of the PRS Regulations.

Listed buildings that hold special architectural or historical significance are within scope of the PRS Regulations if they are legally required to have an EPC. A listed building may not be demolished, extended, or altered without special permission from the local planning authority. As per the Government's guidance, an *"EPC is not currently required for a listed property or building within a conservation area when it is sold or rented in so far as compliance with minimum energy performance requirements would unacceptably alter its character or appearance."*¹³

Ambiguity in listed building requirements has affected some landlords' ability to comply and make it difficult to plan for any necessary works. To determine whether the property is within scope of the PRS Regulations, the landlord is required to go through the process of obtaining an EPC to determine whether it meets minimum energy efficiency requirements. If the property is sub-standard, the landlord would need to spend time and money to seek advice to identify whether there are relevant improvements works. Engagement with the local planning authority

¹² Up to 380,000 and 270,000 retail and office premises respectively. [BEIS, BEES](#)

¹³ [A guide to Energy Performance Certificates for the construction, sale and let of non-dwellings, 2017](#)

is then required to obtain consent. If the works are considered unacceptable by the planning authority, then a consent exemption may be registered in the PRS Exemption Register.

Respondents felt that the Simplified Building Energy Model (SBEM), used to assess non-domestic EPC ratings, is not as effective at assessing older properties. This is because recommendations can be tailored towards modern construction techniques which may be inappropriate and could have negative impacts on the building fabric. Respondents raised concerns that landlords of older properties usually incur additional costs to employ specialists to carry out enabling works such as upgrading or adapting supply connections before energy efficiency measures can be installed.

The Government believes that the treatment of listed buildings under the PRS Regulations remains appropriate, but agree that making existing guidance clearer could simplify compliance with the EPB Regulations and the PRS Regulations for landlords and local authorities. We therefore propose to require listed buildings, and those in a conservation area, which are to be rented out, to have an EPC. Under this proposal, protected buildings that are privately rented may still be able to register for relevant exemptions under the PRS Regulations if they are unable to comply with the minimum energy efficiency standards.

The Government has also committed to review EPC recommendations to make it more tailored to older properties by the end of 2021 as part the EPC Action Plan published in September 2020.¹⁴

Question 1: Should listed buildings and those in conservation areas which are to be rented out be legally required to have an EPC?

The implementation of the seven-year payback test could be improved

The PRS Regulations state that where a landlord registers an exemption on the basis that the recommended measure would not pass the seven-year payback test, the landlord must provide copies of three quotations from qualified installers for the cost of purchasing and installing the improvement, to demonstrate what the repayment cost would have been.

Consultation responses largely agreed that the requirement to obtain three quotes was overly burdensome for both the landlord and market suppliers. The requirement could create a market for quotes, where the sole purpose of that quote would be to prove that it should not materialise into actual works. This has led to cases where it has been difficult to obtain a quote or suppliers have charged to provide one, as they suspect the quote will mean no works are required. Some businesses also felt the exemption process was difficult to understand and clearer guidance with a set of standardised costs for measures would simplify the compliance and auditing process.

¹⁴ [Energy Performance Certificates in buildings: call for evidence](#)

Many stakeholders raised concerns that the current requirements do not go far enough to support the EPC B ambition. Several respondents felt that the payback period should be reviewed or extended to account for the increasing cost of measures that would be required to achieve higher EPC ratings. We previously modelled a 10-year payback period in the 2019 impact assessment, and have updated our model to reflect an improved evidence base. In both cases, such an extension of the payback period to 10 years does not substantially impact carbon savings. The Government intends to retain the payback threshold at 7 years, as our modelling does not indicate a persuasive case for extending the payback period.

Several respondents suggested that the Government should mandate a package approach to ensure that higher cost measures will be captured under a blended payback to prevent too many properties relying on the payback test to not undertake works.

The Government agrees with the importance of having a simple and effective payback test to ensure landlords are considering all relevant energy efficiency measures for their properties. Details on proposals to improve the payback test are set out in Chapter 3.

The updated assumptions on costs of low carbon heating measures mean that MEES will have a limited impact on decarbonising heat.¹⁵ We estimate that under the EPC B requirement, with the seven-year payback test for a package of measures, only around 35,000 heat pumps will be installed over the period up to 2030.¹⁶ As the majority of the energy used in buildings is used for heating, targeted policy will be required to decarbonise heat in non-domestic buildings if we are to get to net zero.¹⁷

¹⁵ Low carbon HVAC technologies in non-domestic buildings. BEIS, 2021, forthcoming publication

¹⁶ Estimated deployment of heat pumps under an EPC C 2027, EPC B 2030 trajectory. This figure relates to option RB in Table 7 of the technical annex.

¹⁷ [BEIS, BEES](#)

Chapter 2: Implementation and enforcement framework

The enforcement pilot was established to understand how the PRS Regulations can be enforced more effectively. The conclusion the Government has reached, having taken into account the other challenges raised in feedback to the 2019 consultation, is that trying to improve implementation and enforcement within the current structure of the PRS Regulations will only go so far when looking to enforce the EPC B by 2030 requirement.

The Government estimates that the EPC B by 2030 requirement will bring up to 85% of rented non-domestic buildings into scope of the PRS Regulations.¹⁸ That is approximately 1,000,000 buildings across England and Wales. The original PRS Regulations were designed to ensure landlords of the lowest rated non-domestic buildings were investing in improving their properties. The future EPC B requirement is an ambitious target designed to drive the UK towards net zero, by encouraging investment in the fabric and services of rented non-domestic buildings throughout the stock.

To deliver net zero, and for the UK to meet its Carbon Budgets, it is vital that these investments are undertaken. The PRS Regulations must be implemented effectively. That is why the following proposals focus explicitly on **how the PRS Regulations can be adjusted to ensure they are better aligned with how the industry and local authorities operate in reality, and can be effective at scale**. The proposals are the product of extensive conversations with the sector and the detailed responses received to the 2019 consultation.

The Government considers that taking the following approach should ease the issues identified in the previous chapter and provide a more effective framework for both industry and local authorities. The Government therefore proposes that there should be:

- **phased implementation of the EPC B by 2030 requirement, with EPC C by 2027 set as an interim milestone**
- **the introduction of two-year ‘compliance windows’. The ‘compliance window’ will begin with the requirement for landlords to present a valid EPC. For EPC C, Government proposes the compliance window should be 2025-2027, and for EPC B 2028-2030**
- **a move away from enforcement at the point of let**

The Government proposes that this overall framework will be supported by the following reforms, addressed in Chapter 3, which are:

- **the introduction of a PRS Exemptions and Compliance database to provide the data that local authorities will require for enforcement and compliance monitoring**

¹⁸ [BEIS 2019 Non-domestic private rented sector consultation impact assessment](#)

- **updates to the penalty framework to enforce the new requirements**
- **non-domestic EPCs will follow the proposed domestic changes, such as the requirement for non-domestic rental properties to continually have an EPC and the need to commission a post-improvement EPC to demonstrate compliance**
- **the ‘three quotes’ system for the seven-year payback will be replaced by a more efficient and user-friendly ‘payback calculator’**

Phased implementation

Respondents to the 2019 consultation were almost completely split on the issue of whether the Government should set an interim milestone ahead of the long-dated target of EPC B by 2030 requirement.¹⁹ There was a genuine consensus that the arguments set out in the consultation addressed the dilemma accurately. This was, in short, that an interim milestone would mitigate against landlords delaying action until close to the 2030 deadline, but a single backstop date encourages greater flexibility and allowed landlords to plan improvements into their tenancy cycles.

The Government has taken all the feedback on board and has decided that the preferred approach is to design a new implementation framework that includes one interim milestone: EPC C by 2027.

The reasoning behind the approach is that the risk of landlords delaying action until 2029 and 2030 was too high. We modelled a pessimistic rollout profile where we assume only 28% of landlords will take action in 2029 to comply with MEES, with the rest of market responding in 2030. Under this scenario, our analysis shows a greatly reduced carbon saving of 2.8MtCO₂e across Carbon Budget 5 (2028-2032).²⁰

Whilst having one EPC target does encourage flexibility, **the interim milestone should not be taken to mean that landlords must improve their properties to an EPC C before then improving the property to achieve an EPC B.** The Government is clear that landlords should invest in the improvement of their building in a way that is most cost-effective and minimises disruption to themselves and their tenants.

In some cases, a landlord’s best approach might be to invest in the building to bring it up to an EPC C and then an EPC B. However, it may be better to undertake one significant retrofit in the 2020s which brings the property up to EPC B, or if EPC B is not possible, the highest cost-effective EPC band the building can achieve. If it makes sense to undertake a one-step improvement, the Government strongly encourages landlords to do so.

The Government considers 2027 as an appropriate date to set as the interim milestone based on the new compliance window approach that is proposed in the next section.

¹⁹ 38% of respondents supported a single backstop date, while 41% supported a phased approach. 21% of respondents did not specify a preference.

²⁰ Additional information on these scenarios is available in the accompanying technical annex to the consultation.

Question 2: Do you support the Government's proposal to introduce an EPC C interim milestone in 2027? If so, are there any amendments you would make to the proposals? If you disagree with the proposal, please explain why and what your preferred approach would be. Please provide evidence where you can.

A new implementation and enforcement framework based on 'compliance windows'

Landlords and local authorities have provided feedback that, in the plans outlined in the 2019 consultation, there was some uncertainty over what landlords and enforcement bodies would be expected to do after 2023 and up to 2030. The Government has proposed a new implementation and enforcement framework here to address those concerns. It is designed to make complying with the PRS Regulations easier for landlords, and enforcing the PRS Regulations easier for local authorities.

On 1 April 2023, the current PRS Regulations will take full effect. Where cost effective, all non-domestic rented properties will need to achieve an EPC E. The Government currently estimates that around 10% of non-domestic rented buildings are below an EPC E, and will therefore be required to act before that date.²¹

At that point, local authorities will be expected to ensure that non-domestic properties are compliant or have a valid exemption. After 2023, the Government proposes that there should only be four junctures where landlords are expected to comply, and where enforcement activity is required:

First Compliance Window: EPC C (2025-2027)

- 1 April 2025: Landlords of all non-domestic rented buildings in scope of MEES must present a valid EPC.
- 1 April 2027: All non-domestic rented buildings must have improved the building to an EPC \geq C, or register a valid exemption.

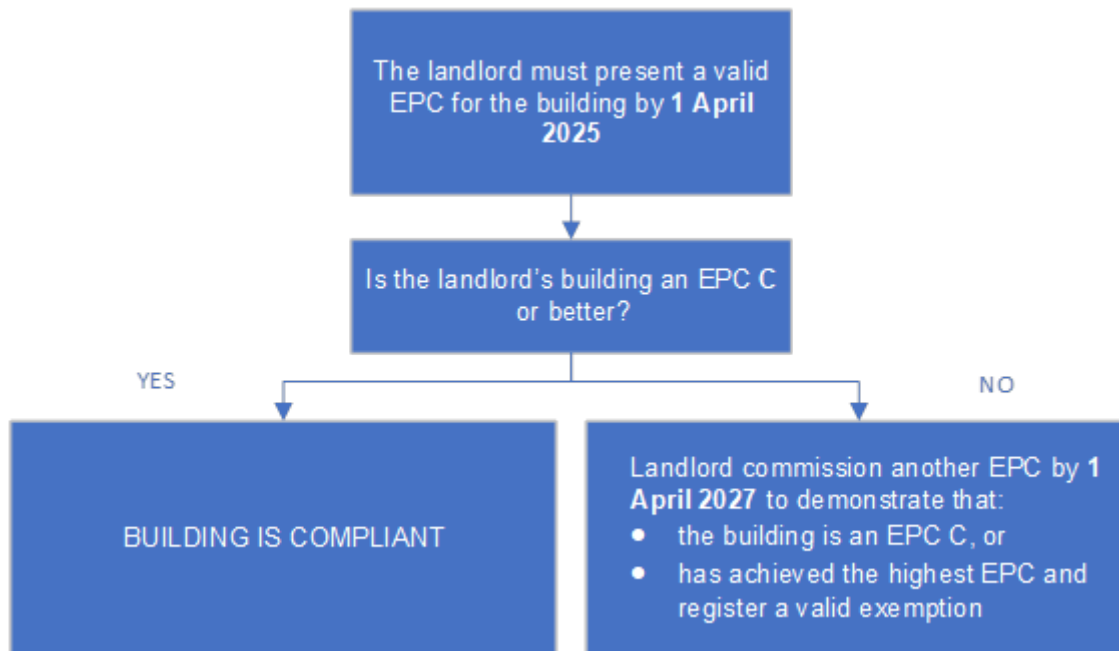
Second Compliance Window: EPC B (2028 – 2030)

- 1 April 2028: Landlords of all non-domestic rented buildings in scope of MEES must present a valid EPC.
- 1 April 2030: All non-domestic rented buildings must have improved the building to an EPC \geq B, or register a valid exemption.

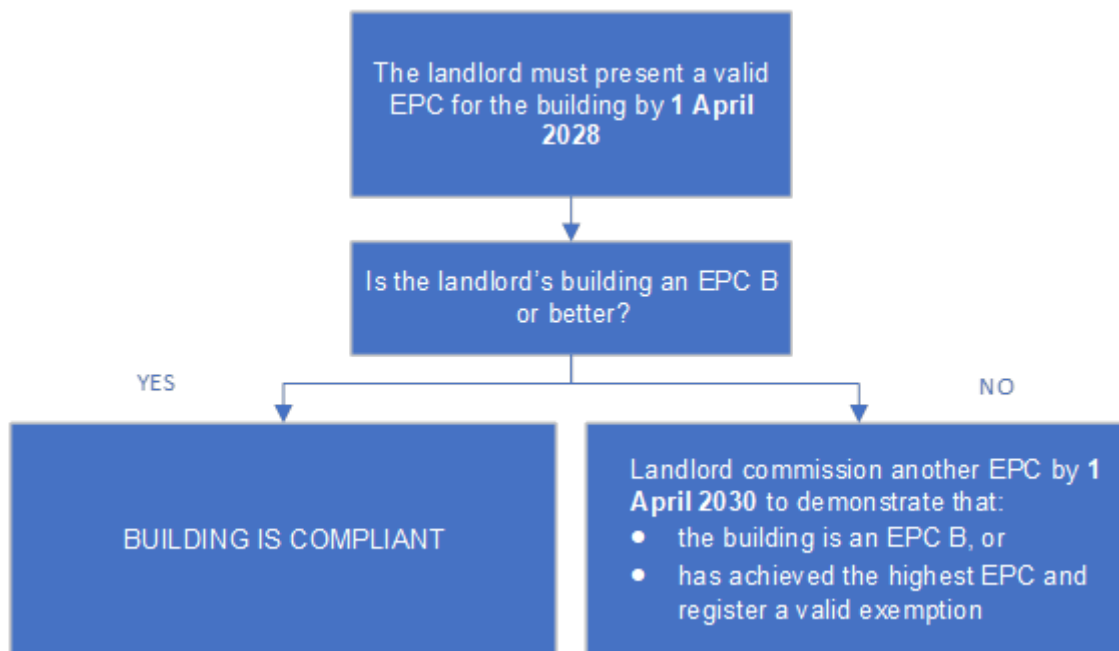
At each enforcement date in 2027 and 2030, landlords will need to demonstrate the building has reached the highest EPC band that a cost-effective package of measures can deliver. Below is a flow chart that sets out the new compliance and implementation framework visually:

²¹ BEIS internal analysis of [BEIS BEES](#) and [EPC data](#) published by MHCLG

First Compliance Window: EPC C (2025-2027)



Second Compliance Window: EPC B (2028-2030)



A notable change is that landlords will be required to present a valid EPC two years before the enforcement date for both EPC targets. Under the proposals set out in Chapter 3, we intend that this will mean submitting their current EPC to an online PRS compliance and exemptions database. This will then ‘start the clock’, creating a clear time period within which landlords will be expected to undertake improvements if they have not done so already. There are a number of reasons why the Government considers this to be a sensible proposal that benefits local authorities and landlords:

For local authorities

It provides the data to identify properties in scope of the PRS Regulations

The implementation window approach should make the PRS Regulations easier to enforce for local authorities. A key finding from the enforcement pilot was that local authorities had difficulties identifying which non-domestic rented properties in their jurisdiction should have an EPC, and what that EPC currently is. If landlords of rented non-domestic buildings are required to present or submit their valid EPC two years prior to the improvement deadline, this will provide local authorities with a clear dataset for rental properties which will help them identify:

- Category A: Which properties have already met or are already above the EPC target, and therefore compliant.
- Category B: Which properties are below the required EPC target, and will need to improve the property or register a valid exemption before the deadline.
- Category C: Through a process of elimination, the properties that may not have complied with the requirement to present a valid EPC.

Consistent enforcement approach

Previously, local authorities may also not have felt comfortable issuing penalty notices if they identified a building with a sub-standard EPC in breach of the MEES. Instead, they may have looked at each individual case to exercise a judgement on how long the landlord should be given to improve the building's EPC, or register a valid exemption, before progressing to a penalty notice.

Under the compliance window approach, the MEES requirements will be clearer. If a landlord presents a valid EPC that is below the next EPC target, the landlord must undertake improvements within a time window of 24 months, or register a valid exemption. Using this approach, it will be clear cut whether a landlord has improved their EPC within the allotted time, and if not, local authorities should be able to move swiftly to issuing penalty notices, without the need to look at individual cases. This is far less resource intensive for local authorities, and it should provide consistency, clarity, and will enable enforcement action to be taken with confidence.

Some respondents noted in the 2019 consultation that the PRS Regulations can be tricky to understand, including overlapping EPC requirements under the EPB Regulations. The implementation window approach should leave landlords in no doubt as to what their obligations are under the PRS Regulations, and the timeframe within which those obligations need to be met.

Additional amendments are proposed to ensure this window approach is reinforced through relevant requirements to ensure alignment with the EPB Regulations:

- Landlords of rented non-domestic buildings must have a valid EPC at all times.

- The landlord has a responsibility to make sure that the EPC is submitted to a new PRS Exemptions and Compliance Database on 1 April 2025 and 1 April 2028.
- Landlords must ensure they can demonstrate they have achieved the EPC target by the deadline of EPC C by 2027 and EPC B by 2030 by obtaining a post-improvement EPC if necessary.

Further information on these proposals is detailed in the next Chapter.

Question 3: The Government recommends respondents read the consultation in full before responding to this question, so that responses can take into account the full suite of changes which the Government suggests should accompany the ‘compliance window’ proposal.

Do you support the Government’s proposal to improve the implementation and enforcement of non-domestic MEES by introducing compliance windows? If so, are there any amendments you would make to the proposals? If not, please outline why, stating what your preferred approach would be. Please provide evidence where you can.

For Landlords

The Framework addresses the shell and core issue

Enforcing against rented non-domestic properties at the point of let and lease renewal is sensible in theory but has not worked well in practice. That is because non-domestic buildings are often rented in a shell and core state. To be compliant at the point of let, landlords either have to install measures that will be immediately replaced, or tenants will have to pay for installations before they legally become the tenant.

Our proposed framework addresses the tenant fit out issue, first and foremost, by moving enforcement and compliance away from the point of let and lease renewal. Under the EPB Regulations, landlords will still be required to hold a valid EPC when looking to rent out their property, so that prospective tenants can understand the quality of the property they might look to occupy.²² However, for the purposes of meeting MEES under the PRS Regulations, all non-domestic rented buildings will need to achieve an EPC C by 2027 and EPC B by 2030, regardless of when they are let or have their lease renewed.

The difficulties associated with compliance with MEES only apply to new lets of shell and core buildings where a new fitout is needed. The Government considers moving enforcement away from the point of let to be an important practical step that allows landlords and tenants to continue their rental transactions and complete fitout ahead of the milestone deadlines. The Government is also aware that this step may not wholly solve the issue. If a property is rented out close to, or after the compliance deadlines, the landlord and prospective tenant will be

²² The EPC’s actual rating is not relevant for EPB Regulations purposes

placed in a similar situation, where they are unable to meet the minimum EPC rating having just rented a shell and core property that needs time to fit out.

Therefore, the Government proposes that a tenant must have occupied a property for a minimum of six months before a local authority can take action against the landlord for failing to meet MEES. This should give landlords and tenants enough time to work together to ensure the building will be compliant with the latest EPC standard, or to have a valid exemption registered.

One way we are considering achieving this, is requiring landlords to register for a new type of temporary exemption (similar to those in regulations 33 of the present PRS Regulations), and to provide evidence to demonstrate that their property has been let in a shell and core condition. Once the temporary exemption expires, local authorities would be alerted via the PRS exemptions and compliance database. At this point, the property would be required to have met the relevant EPC standard or to have registered another relevant exemption.

Question 4: Do you support the introduction of a six-month exemption for shell and core let properties? If so, are there any amendments you would make to the proposals? If you disagree with the proposal, please explain why and what your preferred approach would be. Please provide evidence where you can.

Illustrative Case Studies

We have outlined four potential compliance scenarios under the proposed new framework to illustrate actions landlords may be expected to take when the new requirements come into force from 2025.

Case Study 1: Early Compliance

2025

- Property was let to a new tenant in 2023 with an EPC E. Landlord submits their valid EPC, which is below the required standard of an EPC C in 2027.
- Local authority can see this property will need to undertake improvements, or register a valid exemption, by 2027.
- Landlord carries out improvements and the property achieves an **EPC B**. The landlord submits the new EPC to the compliance database.

2027

- The local authority verifies the EPC, and the landlord is compliant with both upcoming MEES targets. No further improvements will be required.

2028

- The landlord will be required to check that their EPC is valid and submitted to the compliance database. In this case the EPC is valid, is an EPC B, and has been submitted to the compliance database. There is therefore no further action required.

Case Study 2: Phased Compliance

2025

- Property was let to a new tenant in 2023 with an EPC E. Landlord submits their valid EPC, which is below the required standard of an EPC C in 2027.
- Local authority can see this property will need to undertake improvements, or register a valid exemption, by 2027.
- Landlord carries out improvements and the property achieve an **EPC C**. The landlord submits this new EPC to the compliance database.

2027

- The local authority verifies the EPC, and the landlord is compliant with current MEES targets. No action required until 2028.

2028

- The landlord will be required to check that their EPC remains valid and submitted to the compliance database.
- In this case the EPC is valid and has been submitted to the compliance database but is below the required EPC B standard. Local authority can see this property will need to undertake improvements, or register a valid exemption, by 2030.

2029

- Landlord carries out further cost-effective improvements, but the property remains an EPC C. The landlord submits the new EPC to the compliance database and registers an exemption. The local authority verifies the EPC and the registered exemption, and no further action required.

Case Study 3: Shell and Core Unit

2024

- Property is let to a new tenant with an EPC B after tenant's fitout.

2025

- Landlord submits a valid EPC to a compliance database. The Local authority verifies the EPC, and the landlord is compliant with both upcoming MEES targets. No further improvements will be required.

2029

- Property is let to a new tenant and their fitout is EPC C which is non-compliant.
- The local authority is alerted through the compliance database of the sub-standard EPC and expects property improvements to be made, or a valid exemption registered, by 2030.

2030

- Following improvements, the property achieves an EPC B, which the landlord submits to a compliance database. The local authority verifies the EPC, and the landlord is compliant with MEES. Therefore, no further action is required.

Case Study 4: Shell and Core Unit with temporary exemption

2027

- March: Property is let to a new tenant who is responsible for fitout. Landlord registers for a temporary 6-month exemption.
- April: Local authority verifies the exemption and can see this property will need to undertake improvements or register a subsequent exemption by September (6 months after the temporary exemption was registered)
- September: Landlord carries out improvements and the property achieves an EPC B, which the landlord submits to the compliance database. The local authority verifies the EPC, and the landlord is compliant with both upcoming MEES targets. No further improvements will be required.

2028

- The landlord will be required to check that their EPC remains valid and is submitted to the compliance database. In this case the EPC is valid, is an EPC B, and has been submitted to the compliance database. There is therefore no further action required.

The interim EPC C milestone and compliance window is aimed at engaging landlords early to avoid delaying compliance until close to 2030. As noted previously, the interim EPC C

milestone should not discourage landlords from undertaking one larger retrofit to meet the EPC B requirement ahead of 2030 where this proves cost effective.

Transition from EPC E

We do not anticipate there will be issues transitioning from the current EPC E standard to the EPC C and EPC B requirements under a compliance window approach. From 2025 landlords should be considering steps to ensure their properties will be compliant with the upcoming MEES requirements that will be enforced from 1 April 2027.

The same expectations apply for the EPC E requirement in April 2023 when it will apply to all existing non-domestic tenancies – landlords should be considering necessary upgrades ahead of this backstop date. All non-domestic rental properties in scope of the PRS Regulations will need to be compliant with EPC E, or have a valid exemption, from April 2023 onwards.

If the Government goes ahead with proposals to require all non-domestic rented buildings to always hold a valid EPC, then from 1 April 2025 all non-domestic rented buildings will be in scope of the PRS Regulations. That does not mean all landlords will be required to take action under the regulations, but landlords that may have previously been out of scope will need to commission and present their EPC by the 1 April 2025.

Question 5: We welcome views on where improvements could support the transition from the current EPC E requirement, to the proposed new implementation and enforcement framework.

Chapter 3: Supporting amendments to deliver the new framework

The new proposals outlined in the previous chapter are intended to improve the overall regulatory framework of MEES for landlords and local authorities. However, as already mentioned, it is unlikely the new framework will be successful unless it is supported by the following reforms, which will be discussed in this chapter:

- **The introduction of a PRS Exemptions and Compliance database to provide the data local authorities require for enforcement and compliance monitoring**
- **Updates to the penalty framework to enforce the new requirements**
- **Non-domestic EPCs will follow the proposed domestic changes, such as the requirement for non-domestic rental properties to continually have an EPC and the need to commission a post-improvement EPC to demonstrate compliance**
- **The ‘three quotes’ system for the seven-year payback will be replaced by a user-friendly ‘payback calculator’**
- **Introduce tenant obligations to take on a share of responsibility for MEES compliance**

Energy Performance Certificates

EPCs are certificates produced when a building is built, sold, or rented out. They allow consumers to compare potential energy performance across different buildings. EPCs were designed to be a simple and cost-effective way of enabling prospective buyers or tenants to make informed decisions.

Stakeholder responses on the use of EPCs for the purpose of MEES raised concerns with the quality and consistency of the EPC assessment process. Respondents commented on a lack of visible enforcement and the suitability of recommendations, particularly for older buildings. The Government is committed to ensure EPCs are fit for the future. The EPC Action Plan published in September 2020 sets out a series of actions to deliver an EPC system that: produces accurate, reliable, and trusted EPCs; engages customers and supports policies to drive action; and creates a data infrastructure fit for the future of EPCs.²³ The EPC Action Plan sets out the Government’s commitment to continuously improve EPCs to meet the needs of evolving policies.

Another key issue raised by stakeholders regarding the EPC is the fact that it does not measure actual operational energy use.

²³ [Energy Performance Certificates for buildings: action plan](#)

It is important to recognise that the EPC is not designed to measure operational energy use. Its intention is to provide information on the quality of a building's fabric and services, regardless of the behaviour of the occupier. This makes the EPC an effective tool for setting long-dated regulation, such as non-domestic PRS Regulations, which aims to improve the quality of building fabric and services.

The Government recognises that improving the operational performance of non-domestic buildings is absolutely vital, but it is important to recognise the diversity that exists across the non-domestic stock, and to target the policy approach accordingly. Commercial and industrial buildings above 1,000m² account for only 7% of all non-domestic buildings, but use over half of the total energy used, and carbon emitted, by all non-domestic buildings. That is why the Government has published a consultation which sets out ambitious proposals to introduce a new framework for these private non-domestic buildings above 1,000m², which is based on measuring the energy meter and driving improvements in actual energy performance and carbon emissions.²⁴

Under the proposals outlined in that consultation, building owners and single tenants will be required to obtain a performance-based rating annually, and to publicly disclose that rating online. Given the amount of energy used in these buildings, this performance-based approach is right for these buildings because it takes account of all the factors which influence building performance in reality. Therefore, the Government proposes to use the scheme to set sector by sector energy reduction targets for 2030 and beyond, against which progress will be tracked on an annual basis, rather than use the EPC to drive improvements to the building fabric and services.

The Government is clear that building owners and businesses below 1,000m² also need to optimise the use of their existing space and their existing systems. Whilst a bespoke performance-based framework will have the greatest impact in larger commercial and industrial buildings, the EPC Action Plan contained the commitment to ensure the EPC can become a true measure of 'in use' building performance as well as a reflection of a building's features (fabric, services and installed improvement measures).²⁵ This includes an evolution of the National Calculation Methods used to produce EPCs to incorporate real-world performance, and developing an alternative policy framework for large, complex non-domestic buildings where it can be difficult to model energy use accurately.

Strengthening Enforcement

Local authorities that participated in the enforcement pilot study were able to build upon their existing knowledge and contacts to raise awareness of the PRS Regulations with their local community. Local authority engagement with landlord forums and letting agents to provide

²⁴ [Introducing a performance-based policy framework in large commercial and industrial buildings](#)

²⁵ Energy Performance Certificates for Buildings, Action Plan, (2020).

advice on the PRS Regulations proved successful in engaging the local market. It also acted as a route to identify properties that were potentially non-compliant.

Local authorities remain best placed to work with landlords as they have knowledge of their local market. However, the Government recognises that local authorities face a number of challenges in enforcing the PRS Regulations, and require additional support and in relation to having access to accurate and up to date EPC information.

To better support the aims of the PRS Regulations we propose to introduce improvements to the EPC that all align with domestic PRS proposals. In summary, these are:

- **Requiring that landlords provide a valid EPC to letting agents prior to a property being put on the market.** Under the current EPB Regulations, before a building is put on the market the landlord must commission an EPC if no valid one already exists. The Government proposes to strengthen the EPB Regulations by removing the seven to twenty-one-day exemption, meaning there would be no circumstances in which a property could be marketed or let without a valid EPC.
- **Placing a requirement on letting agents and online property platforms.** Legislation placing requirements on letting agents is currently in place, however the legal position on online property platforms is less clear. Under the Consumer Rights Act 2015, online platforms do not meet the definition of a letting agent.²⁶ There are different regulations for different types of online property platforms. The Government proposes to seek primary powers to place a requirement on letting agents and online property platforms to only advertise and let properties compliant with the PRS Regulations. This will strengthen and simplify the existing enforcement regime and encourage greater compliance with PRS Regulations.
- **The continual requirement to have an EPC if letting.** Currently, once an EPC expires after ten years, a new, valid EPC is only required when the property is re-let, not when a tenancy is renewed or extended with the same tenant in situ throughout. As a valid EPC is a legal requirement to bring PRS properties into scope of the PRS Regulations, these types of properties (where the EPC has expired and the tenancy is renewed or a tenant is in situ throughout) are not covered by the PRS Regulations. This measure will therefore make sure that lease renewals are captured within the scope of the PRS Regulations, by ensuring that properties always have an up-to-date EPC during the whole time that they are being rented out.
- **Post-improvement EPCs to demonstrate compliance with MEES.** Feedback from the BEIS PRS Enforcement Pilots and stakeholder workshops shows that local authorities can significantly reduce the time spent on compliance checking and better direct enforcement activity where a valid, up-to-date EPC for a property exists. Thus, by mandating post-improvement EPCs, the EPC rating of a building will be kept up to date

²⁶ A letting agent, as defined in the Consumer Rights Act 2015, is someone who does letting agency work (work done in response to either (a) instructions from a prospective landlord seeking a tenant/granting a tenancy, or (b) instructions from a prospective tenant seeking to find/obtain a tenancy (s86)). Online property platforms do not meet this definition, which excludes advertising, disseminating information, putting people in contact with each other, providing a means for contacting each other (s86(2)).

after any changes to the property that affect energy efficiency, and it will be easier for local authorities to check and enforce compliance.

- **Permitting local authorities to use EPC Open Data for PRS enforcement.** The Government makes EPC data available for research purposes to the scientific community, local authorities, and environmental organisations, with updated EPC bulk data published two to four times per annum. Feedback from the pilot study show that local authorities would find EPC Open Data useful for PRS enforcement. Government proposes to investigate options to provide local authorities access to EPC Open Data.
- **Enforcement period of EPCs under EPB Regulations** - The Government considers that the EPB Regulations mean that the regulation 36 power to give a penalty charge notice can bite on both regulation 6 and regulation 35 breaches for six months from the final date of the landlord's continuing breach of their duty to provide an EPC, rather than six months from the date when the landlord first became in breach. Regulation 6 of the EPB Regulations imposes a duty on landlords (or other duty holder) to make the EPC available to a prospective buyer or tenant. Regulation 35 of the EPB Regulations allows an enforcement authority to ask the landlord to produce the EPC for inspection.

The above proposals mirror those that were consulted for the domestic rented sector. We would welcome your views on applying the same changes to the non-domestic rented sector.

Question 6: Do you agree with the proposals to strengthen enforcement requirements to support non-domestic MEES under the PRS Regulations? If not, please explain why.

Encouraging compliance

Introducing a property compliance and exemptions database

There is currently no simple way for local authorities to identify whether a property is part of the rented sector and whether that property is, at a given point in time, compliant with the PRS Regulations. Some general data on rented properties does exist, including in the EPC Register, and the PRS Exemptions Register. However, this data cannot easily be used for compliance monitoring. The PRS Exemptions Register for example, only contains data on properties that have applied for an exemption. It does not capture all properties that should be in scope of the PRS Regulations.

The Government considers that expanding the scope of the current PRS Exemptions Register is necessary to support the new compliance window approach. It will also result in an easier process for landlords to submit their EPCs to demonstrate compliance. The Government

proposes, therefore, to align the non-domestic sector with the approach set out in the domestic PRS consultation.²⁷

The domestic PRS consultation set out plans for a central PRS exemptions and compliance database. Each property registered on the database would need to evidence a relevant exemption as is the current requirement. The database would be operated by a third-party that will provide scrutiny and a decision for the exemptions, as well as guidance on compliance and exemptions. Having a third-party operator will remove the additional pressure on local authorities to audit exemptions and ensure a consistent experience for landlords. Landlords will need to provide a copy of a valid EPC for inclusion in the database demonstrating compliance with the PRS Regulations. Landlords successfully registered on the database should then have fulfilled requirements under the proposed new framework to present their property's EPC at the start of each compliance window.

There are other benefits associated with a property compliance and exemptions database:

- It provides landlords, tenants, agents, and investors with assurance that properties are compliant with the PRS Regulations. A centrally managed system allows for simpler compliance checking.
- It improves compliance with the PRS Regulations by simplifying the process – stakeholder engagements have highlighted that individual landlords and those with smaller portfolios lack the time and resource to fully engage with the PRS Regulations.
- It would significantly reduce administrative burdens on local authorities. A database requiring a one-time registration of properties to demonstrate compliance streamlines compliance checking processes.

A database that allows landlords to demonstrate compliance with the PRS Regulations will make it easier for landlords to market their property and make other transactions, such as securing financing. We consider that a one-off database registration fee of around £30 per property, inclusive of VAT, is reasonable and will cover the costs of its operation. This aligns with the domestic PRS proposals.

The Government will review whether the cost should be different for non-domestic landlords, and if there should be a maximum total registration fee for landlords with very large portfolios.

Question 7: Do you support the introduction of a PRS property compliance and exemptions database to support enforcement of the PRS Regulations under the new EPC B framework? If not, please explain why.

Question 8: Do you agree with the proposed landlord registration fee for the PRS property compliance and exemptions database? If not, please explain why.

²⁷ [Improving the Energy Performance of Privately Rented Homes](#)

Financial penalties for non-compliance with the new framework requirements

The PRS Regulations provides for civil sanctions in the form of a publication penalty and financial penalties which may be issued by local authorities to landlords for non-compliance.²⁸ Currently local authorities may issue financial penalties up to a maximum total of £5,000 (and a publication penalty) on a landlord of a non-domestic PRS property in relation to registering false or misleading information, or against a landlord who has failed to act on a compliance notice.²⁹

We propose to retain the same level of fines to encourage landlords to comply with the requirements of the new framework, and consider a financial penalty not exceeding a maximum total of £5,000 is reasonable for the following breaches:

- The landlord fails to register their property on the proposed PRS exemptions and compliance database.
- The landlord fails to present a valid EPC by the required dates set out under the proposed compliance windows approach.
- The landlord has registered false or misleading information.
- The landlord failed to provide a post-improvement EPC to demonstrate compliance.

For such breaches, we suggest that local authorities retain flexibility as to how they wish to set the fine levels within this proposed upper cap. The proposed maximum fine level is considered proportionate and consistent with the existing approach.

Landlords remain liable to a maximum fine up to £150,000 if a property has been let in breach of the PRS Regulations.

Question 9: Do you agree that £5,000 is a suitable maximum limit to set as the penalty for non-compliance with the new framework requirements? If not, please explain why.

Final sanctions

The Government considers that the current penalty regime is sufficient to deter non-compliance. Some local authorities have expressed concern over whether the PRS Regulations make it sufficiently clear that authorities can issue fines and penalty notices to landlords for each property per each case of confirmed breach. The Government considers that the PRS Regulations intended that once a penalty has been issued, a continuing breach by the landlord, or a repeat breach, can be treated by authorities as a 'new case' and therefore liable for additional penalty charges. Stakeholders are invited to give their views on whether the PRS Regulations are sufficiently clear regarding the enforcement rules in this area.

²⁸ A 'publication penalty' may be imposed under the PRS Regulations whereby details of the breach including the property address and the amount of financial penalty is published on the PRS Exemptions Register

²⁹ [The Energy Efficiency \(Private Rented Property\) \(England and Wales\) Regulations 2015 \(SI 2015 No. 962\)](#). Regulation 41(4) – 'Breaches in relation to non-domestic PR property'

Question 10: We welcome views on the clarity of the current PRS Regulations in relation to enforcement of penalties for non-compliance with MEES.

Powers to inspect properties to aid enforcement

Feedback from stakeholder workshops suggests that local authorities would like to see increased enforcement powers including the power to enter properties suspected to be in breach of the PRS Regulations and the power to serve improvement notices, in addition to penalty notices.

These powers would be useful to investigate issues such as suspected fraudulent or poor quality EPCs, to check registered exemptions criteria, or to prove that a property is being rented and is therefore in scope of MEES.

It is essential that powers of entry, as with any enforcement power, achieve the right balance between the need to enforce the law, ensure public protection and to provide sufficient safeguards and rights to the individual. Local authorities have powers of entry to domestic PRS properties in limited circumstances under the existing housing law – such as to determine if enforcement action under the Housing Act 2004 is necessary, in order to protect the health, safety and welfare of occupiers. There are no equivalent supporting powers for the non-domestic sector, and it is the Government's view that to introduce powers of entry for the purpose of non-domestic MEES would be disproportionate to the intended aims.

Instead, we propose to enable local authorities to give notice to landlords that they wish to carry out an inspection, requesting permission to do so at an agreed time from landlords and any tenants in situ. This is in line with domestic proposals to strengthen local authorities' ability to enforce MEES.

Question 11: Should the Government allow local authorities to issue a request to landlords and tenants to inspect properties for compliance under the PRS Regulations? If not, please explain why.

Updating the exemptions framework

The PRS Regulations provide for exemptions that allow a sub-standard property to be rented out even if it is below MEES, currently EPC E. For the EPC B by 2030 requirement, it is important that the exemptions regime remains relevant. The Government must also ensure that those in scope of the PRS Regulations are not relying on exemptions to avoid undertaking improvements.

The majority of exemptions outlined in the PRS Regulations are valid for five years. Exemptions include the seven-year payback test, the inability to obtain third party consent, and where the measures would significantly devalue the property.

Exemption validity period

Landlords need to register their exemptions on the PRS Exemption Register and submit evidence to demonstrate they meet the criteria specified in regulations. All exemptions are valid for a period of 5 years, except for temporary exemptions.

The EPC B requirement captures up to 85% of the non-domestic rental stock and is designed to drive action and deliver carbon savings across this sector. We understand that not all buildings will be able to achieve EPC B. There will be more sub-standard properties compared to existing EPC E requirements; currently EPC F and G properties only make up around 10% of the non-domestic rental stock.³⁰ We therefore expect more landlords to register exemptions.

It is essential that exemptions are regularly reviewed to reflect market changes such as reductions in the cost of measures or improvements in performance. Tenants who previously refused consent to improvement works may have a change in situation that allow the works to proceed, or a fall in costs of materials that allow additional measures that meet the seven-year payback test to be installed. The five-year period is intended to give certainty to landlords and to allow for a realistic chance that circumstances will have changed enough for the measure(s) to have become cost effective.

To encourage continual energy efficiency improvements, the Government proposes that all properties must review their existing exemptions at the start of each compliance window. Landlords would effectively have to ensure that any valid exemptions registered are still relevant in 2027, and in 2030, providing updated evidence as required.

The compliance window approach sets clear periods for when landlords need to act to comply with MEES. If the Government did not adopt this proposal, a landlord registering for an exemption in 2025 would not have to review that exemption until 2030, by which time both compliance window periods would have passed. Inaction from landlords in this period could undermine our policy objectives.

Question 12: Do you agree that all exemptions should be reviewed at the start of each compliance window? If not, please explain why.

Payback Calculator

The requirement to achieve EPC B by 2030 will see more landlords make use of the seven-year payback test than under the current EPC E target. The Government does not expect that all properties will be able to meet the EPC B requirement, but it is important that every property is undertaking improvements to achieve the highest EPC rating that a cost-effective package of measures can deliver. This will be determined by the payback test. It is clear from stakeholder feedback that the current requirement to obtain three quotes is creating undue burdens on both landlords and market suppliers.

³⁰ BEIS internal analysis of [BEIS BEES](#) and [EPC data](#) published by MHCLG

To better support compliance and enforcement of the higher EPC standards, we propose to introduce a calculator that will provide standardised purchase and installation costs of energy efficiency measures, based on actual industry data. Landlords will be able to input their building characteristics from which they would then receive a list of measures that are in scope or out of scope of PRS for their building based on pre-populated cost and payback assumptions.

We are considering keeping the three quotes requirement for circumstances where landlords wish to dispute the standardised costs, for example, to demonstrate that a measure is out of scope due to local supply chain pressures. Keeping the three quotes requirement for certain circumstances will depend on consultation responses and further consideration of its impact.

As well as removing the time and hassle factor for landlords and market suppliers/installers, there would be additional benefits to having a single Government developed standard which payback calculations would be based upon:

- Encourage better understanding of the benefits of energy efficiency measures and their payback period to help inform investment decisions. Although similar market-based calculators are available, they come at a large fee and have therefore not been widely used.
- Simplify local authority enforcement process by removing the need to audit individual payback assessments in varying formats.
- Offer package solutions to provide a blended payback of lower and higher cost measures to achieve the highest possible EPC rating.

We also propose to mandate that a package of energy efficiency measures should be installed, where they are cost effective. Government guidance has always recommended that landlords consider a package approach to meet the payback test. Certain measures which might individually fail the seven-year payback test, may pass when installed together with other measures as a package. Installing a package of measures will often have strategic benefits for the building, especially where the landlord may be looking to transition to clean heat. A package of measures may also be more cost effective, in terms of minimising void periods, than installing individual measures with the associated disruption each time.

It will be complicated for landlords to work out what the highest EPC band is that they can achieve under a cost-effective package of measures. A standardised calculator would be able to quickly select an appropriate package of measures within the payback period. Landlords will be able to understand, in a straightforward manner, what is expected of them under the regulations and will be able to clearly demonstrate compliance.

Question 13: Do you support the introduction of a standardised calculator to simplify the requirements for the payback test? If not, please explain why.

Question 14: What are your views on whether the three quotes requirement should be kept for certain circumstances, where landlords wish to dispute the standardised costs, and how would the requirement work in such circumstances?

Tenant obligations

As set out earlier in the consultation, the Government has proposed to enforce MEES only once a unit is fully operational and has been occupied for at least six months. This should resolve the issues created by enforcement being at the point of let in buildings that are rented in a 'shell and core' state.

Tenant fitout choices are not currently regulated but can have a significant impact on the final EPC rating. Standards of tenant fitout that would typically be compliant with an EPC E requirement may no longer be so under the EPC B trajectory. Increasing investments in energy efficiency measures will be required to achieve higher EPC ratings to comply with MEES. Tenants are encouraged to refer to the Energy Technology List (ETL), which is a Government backed scheme which can support investment in highly efficient energy-related products.³¹ There are currently over 14,000 products listed across 55 product categories on the ETL, with all products making up the top 25% of energy efficiency in their given product category.

Stakeholders noted that, in some cases, legal mechanisms like an 'Agreement for Lease' have worked well to share and allocate responsibilities between landlord and tenants to comply with MEES. In situations where the parties cannot agree, it may result in landlords taking on additional costs to rectify sub-standard tenant fitouts for MEES compliance. This can be expensive if EPC targets were not factored into the original plans. Landlords have expressed concern that the current PRS Regulations mean they have limited power to affect tenant fitouts and yet are still liable for penalties.

The PRS Regulations are designed to ensure that landlords invest in improving the properties of the buildings they own and rent – investment that they might not otherwise make. However, where tenants are responsible for the investments in energy efficiency measures, many consultation responses recommended that tenants take on a share of the legal responsibilities in relation to MEES, given their role in fitting out the premises.

The Government is therefore considering amending the PRS Regulations to give tenants of non-domestic properties some duties regarding compliance with MEES rules, and to add consequent duties of cooperation for both landlord and tenant that they must work together to

³¹ <https://etl.beis.gov.uk/>

reach compliance. New primary legislation would be required to place such legal obligations on tenants under the PRS Regulations.

The Government anticipates that this will be helpful for other forms of leasing, for example long term tenants who may have additional property responsibilities that include the building envelope, such as the windows or roof.

Question 15: Should the Government seek primary powers to introduce tenant responsibilities duties for MEES compliance under the PRS Regulations for non-domestic properties, and to introduce duties of mutual cooperation for landlord and tenant? If not, please explain why. If so, what do you think these duties should consist of?

Please explain your reasons and give examples where possible.

Chapter 4: Supporting the roll-out of smart meters

Smart meters are replacing traditional gas and electricity meters as part of a national infrastructure upgrade that is making our energy system more efficient and flexible, whilst cutting costs for consumers. The smart metering cost benefit analysis estimates that on average, non-domestic consumers will make energy savings of 2.8% for electricity and 4.5% for gas.³²

Smart meters give non-domestic consumers accurate billing and information on their energy use, allowing them to pick the best tariff and energy supplier for them, and to switch energy supplier more quickly and easily. With the emergence of smart meter-enabled energy management products, non-domestic consumers can be provided with insights about their energy consumption, enabling them to control energy use, manage costs and help the environment.

Landlords can also benefit from the installation of smart meters in their properties, as remote meter readings make it easier for landlords and energy suppliers to manage tenancy changes and periods where their properties are not occupied.

In June 2020, the Government confirmed the policy framework for energy suppliers to deliver a market-wide rollout of smart meters as soon as practical in the period after 2020.³³

This included considering policy measures to proactively support the uptake of smart meters in the private rented sector, such as measures to help ensure that landlords do not unreasonably refuse a tenant's request to install a smart meter where the tenant is the energy customer, and whether to add smart meters to the mix of measures that may be implemented to meet minimum energy efficiency requirements. For non-domestic sites, the Government is scoping the broader role of landlords in helping to deliver the smart meter rollout, particularly the pros and cons of a voluntary versus regulatory approach and the implications of landlord/tenant split incentives which add further complexity in the non-domestic sector.

Any such proposals and their means of delivery would be subject to further consultation.

Question 16: Do you think that smart meters could play a role in supporting landlords to meet Government energy efficiency requirements such as the PRS Minimum Energy Efficiency Standard under the PRS Regulations? What are the key benefits/barriers of smart meters playing a role?

³² [Smart meter roll-out: cost-benefit analysis 2019](#)

³³ [Smart meter policy framework post 2020](#)

Consultation questions

Chapter 1

1. Should listed buildings and those in conservation areas which are to be rented out be legally required to have an EPC?

Chapter 2

2. Do you support the Government's proposal to introduce an EPC C interim milestone in 2027? If so, are there any amendments you would make to the proposals? If you disagree with the proposal, please explain why and what your preferred approach would be. Please provide evidence where you can.
3. Do you support the Government's proposal to improve the implementation and enforcement of non-domestic MEES by introducing compliance windows? If so, are there any amendments you would make to the proposals? If not, please outline why, stating what your preferred approach would be. Please provide evidence where you can.
4. Do you support the introduction of a six-month exemption for shell and core let properties? If so, are there any amendments you would make to the proposals? If you disagree with the proposal, please explain why and what your preferred approach would be. Please provide evidence where you can.
5. We welcome views on where improvements could support the transition from the current EPC E requirement, to the proposed new implementation and enforcement framework.

Chapter 3

6. Do you agree with the proposals to amend EPC requirements to support non-domestic MEES under the PRS Regulations? If not, please explain why.
7. Do you support the introduction of a PRS property compliance and exemptions database to support enforcement of the PRS Regulations under the new EPC B framework? If not, please explain why.
8. Do you agree with the proposed landlord registration fee for the PRS property compliance and exemptions database? If not, please explain why.
9. Do you agree that £5,000 is a suitable maximum limit to set as the penalty for non-compliance with the new framework requirements? If not, please explain why.
10. We welcome views on the clarity of the current PRS Regulations in relation to enforcement of penalties for non-compliance with MEES.

11. Should the Government allow local authorities to issue a request to landlords and tenants to inspect properties for compliance under the PRS Regulations? If not, please explain why.
12. Do you agree that all exemptions should be reviewed at the start of each compliance window? If not, please explain why.
13. Do you support the introduction of a standardised calculator to simplify the requirements for the payback test? If not, please explain why.
14. What are your views on whether the three quotes requirement should be kept for certain circumstances, for example where landlords wish to dispute the standardised costs, and how would the requirement work in such circumstances?
15. Should the Government seek primary powers to introduce tenant responsibilities duties for MEES compliance under the PRS Regulations for non-domestic properties, and to introduce duties of mutual cooperation for landlord and tenant? If not, please explain why. If so, what do you think these duties should consist of? Please explain your reasons and give examples.

Chapter 4

16. Do you think that smart meters could play a role in supporting landlords to meet Government energy efficiency requirements such as the non-domestic MEES under the PRS Regulations? What are the key benefits/barriers of smart meters playing a role?

Technical Annex

Introduction

The 2019 consultation impact assessment (referred to as the “IA”) focused on targets for the EPC rating of the non-domestic private rented sector (PRS).³⁴ It considered trajectories to EPC C and EPC B by 2030. The consultation which accompanied this IA also asked stakeholders to respond to questions concerning the effectiveness of the use of incremental milestones (legislate a gradual increase of the minimum standard) versus a single backstop to implement the trajectory options. This technical annex provides an addition to the 2019 consultation IA to present some modelling of options around interim milestones.

The methodology behind the cost-benefit analysis outlined below is consistent with the IA. However, since the IA was published there have been updates to the evidence base, which have been reflected here where it affects the key metrics. This technical annex first describes these updates before presenting the additional scenarios.

Updates to evidence and methodology

There have been three changes to the evidence and methodology:

1. Heating, Ventilation and Air Conditioning (HVAC) costs update³⁵
2. Accounting for Business-As-Usual (BAU) improvements in heating system efficiency
3. Updated National Calculation Methodology (NCM) emissions factors

Heating, Ventilation and Air Conditioning (HVAC) costs update

In 2019 BEIS commissioned an update to its technical assumptions for HVAC technologies in non-domestic buildings. These assumptions cover aspects such as suitability of different heating technologies for different building types, efficiency factors and costs for both installation and the units themselves.

The updated assumptions have led to a significant increase in the costs associated with low carbon heating, such as heat pumps. These updated costs reflect an improved evidence base but result in a much lower level of low carbon heating deployment in our modelling of the response to minimum energy efficiency standards compared to the previous analysis.

The impact of incorporating this update is described in Tables 3 and 4. These show a comparison of the revised EPC B and EPC C 2030 estimates pre and post update. These

³⁴ [Consultation Stage Impact Assessment for amending the Private Rented Sector Regulations, 2019](#)

³⁵ Low carbon HVAC technologies in non-domestic buildings. BEIS, 2021, forthcoming publication

tables demonstrate a substantial decline in low carbon heating installations compared to our previous estimates.³⁶ This is discussed in further detail later.

Accounting for Business-as-Usual (BAU) improvements in heating system efficiency

In our previous modelling, some baseline improvement in the energy efficiency of conventional heating systems was not accounted for. As an example, energy savings that occurred due to landlords replacing old fossil fuel-based heating systems with newer versions of the same system were excluded from the baseline, due to model functionality. The impact of this was an overly pessimistic baseline. The energy savings in this example are driven by performance improvements as old boilers are switched to new ones, but as these occurred independently of the PRS Regulations, they should be accounted for in the baseline.³⁷

As BAU improvement in conventional heating systems was not being accounted for, the efficiency gain from switching to a low carbon system was exaggerated. Our latest modelling accounts for BAU improvement but does not attribute this improvement to the policy which reduces the energy and carbon savings resulting from the policy and reduces its overall net present value.

Updated National Calculation Methodology (NCM) emission factors

Since the IA was published, there have been revisions to the emissions factors that reflect the carbon intensity of fuels used to power and heat buildings. These are updates taken independently of Government, and have been accounted for in our latest model. Applying the updated fuel factors generated through the updated NCM indicates that some non-domestic buildings change EPC bands independently of any impact from the MEES, such as electricity grid decarbonisation.³⁸ We have updated the EPC distribution of our model sample to reflect the updated input to the EPC methodology.

A comparison of the EPC distributions in 2020, can be found in figure 2 below.

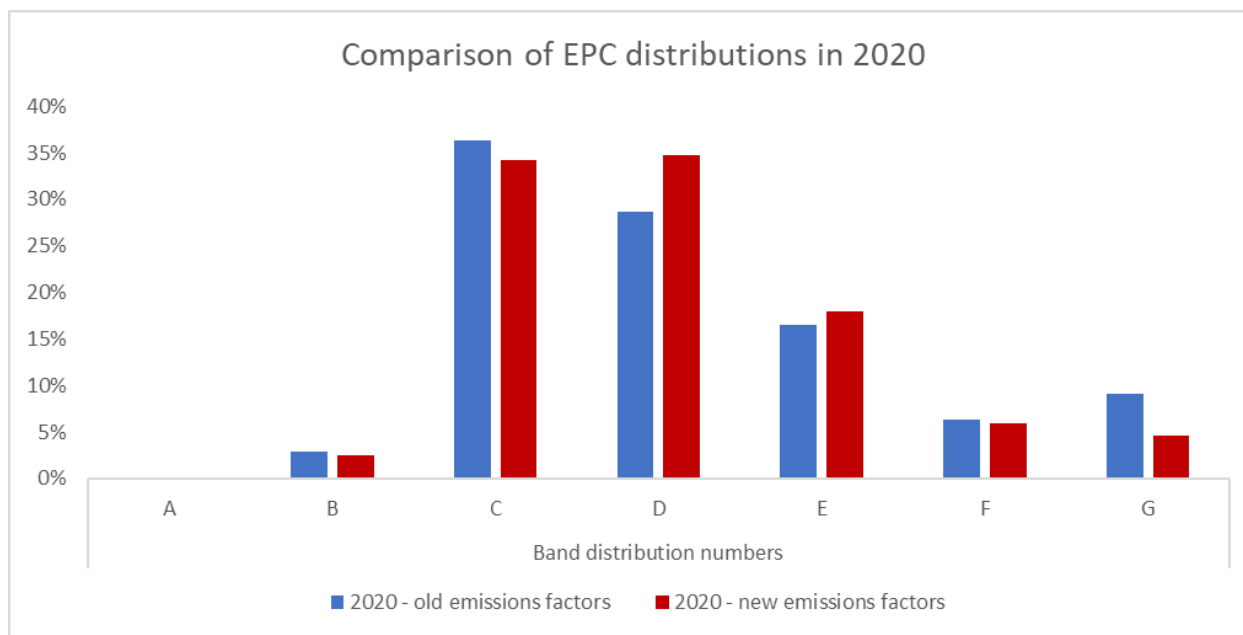
Using the latest emission factors, more buildings are in higher EPC bands than previously indicated. Roughly 72% are in Band D or above, compared to around 68% previously. In bands E and below, a greater share of buildings hit at least EPC E once the update is incorporated (around 18% compared to 17% previously). More buildings fell into band F and G under the previous emission factors (6% and 9%, respectively) compared to the revised estimate.

³⁶ Gas Heat Pumps have been disabled in the latest version of the Non-Domestic Buildings Model (due to incompatibility with achieving Net Zero), so the lack of installations is not due to the HVAC costs update.

³⁷ Baseline refers to the counterfactual – in this example it is the energy savings that would accrue in the absence of the policy.

³⁸ Further information on UK Greenhouse Gas Emissions reductions can be found here:

<https://www.gov.uk/government/statistics/final-uk-greenhouse-gas-emissions-national-statistics-1990-to-2018>. Total GHG emissions from grid-supplied electricity fell by around 43% between 1990-2018 primarily due to a reduction in coal's share in electricity generation.

Figure 2: EPC distributions pre- and post-carbon emissions factor update

EPC distributions in figure 2 reflect the updated privately rented non-domestic building emissions. The distributions reflect the stock not as it would appear today, but as it would appear once buildings have an updated EPC. In line with expectations, we note that some movement across EPC bands has occurred, but these are not drastic shifts. The net impact of incorporating this updated evidence is that fewer buildings will require retrofits to comply with the PRS Regulations. This is likely to reduce the costs required to deliver against the policy ambition. Moreover, since fewer buildings are now in scope, the potential carbon savings are also likely to fall.

Updated estimate of setting MEES to EPC B

Given the changes described above, we have produced an updated set of central estimates of the impact of MEES under an EPC B by 2030 trajectory. Table 1 shows the updated central estimate, under a 7-year payback restriction, against the preferred option presented in the 2019 IA.

The rollout profile of the EPC B Central is shown in figure 3 below. Based on British Property Federation data,³⁹ 75% of respondents noted that their lease length was between 1 to 5 years, giving us a proxy for tenancy turnover of 15% per year for that period.⁴⁰ For years 6 to 10, proxy tenancy turnover is 3.8% per year. The central scenario assumes that there is only 50% compliance such that only 50% of buildings do something at the end of their first tenancy, so the tenancy turnover rates are halved. Therefore, the final rollout profile assumes that 7.5% of buildings respond to EPC B 2030 regulations in 2020 through to 2025, with 9.4% of buildings

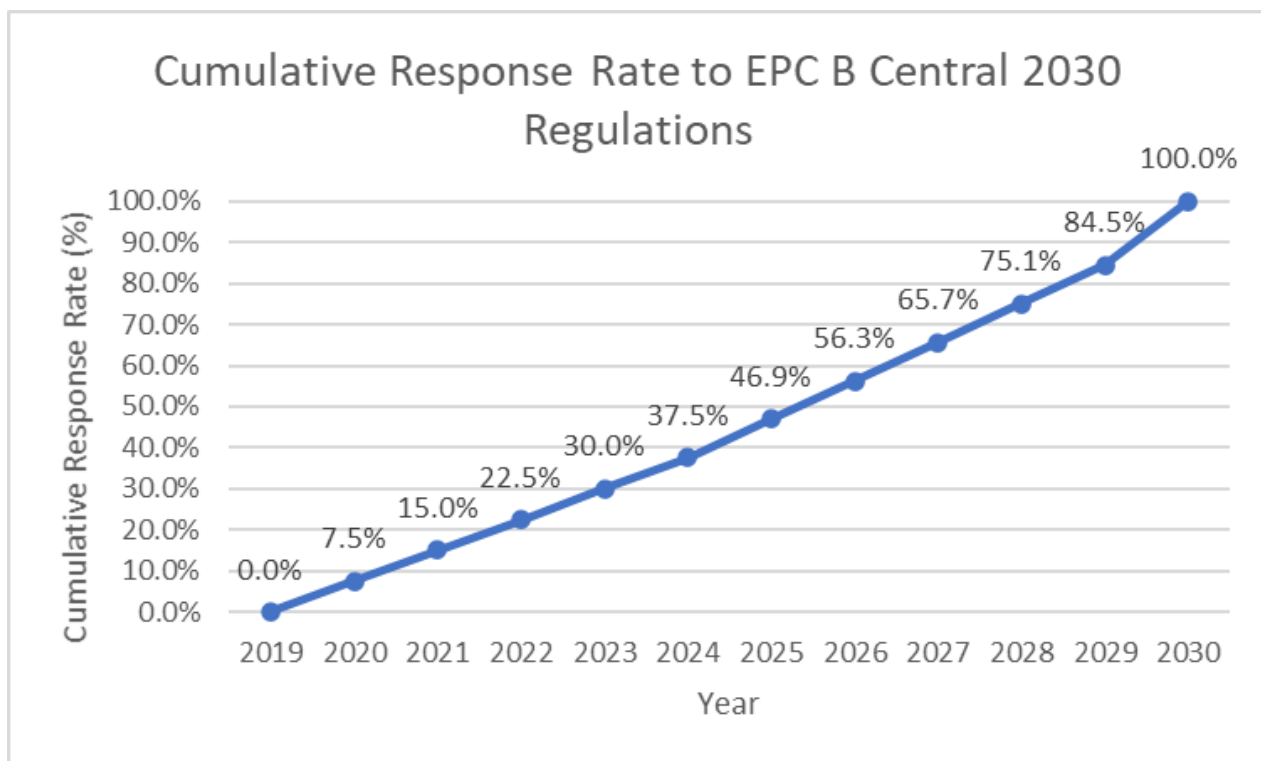
³⁹ MSCI & BPF (2017), <https://www.msci.com/www/research-paper/uk-lease-events-review-november/0787670910>

⁴⁰ 15% comes from the 75% with a lease length of 1 to 5 years / 5 years.

responding to the PRS Regulations from 2025 through to 2030.⁴¹ By 2030, the rollout profile assumes that 100% of buildings will have responded to the EPC B Central regulations.

Please note that the rollout explains the number of buildings that respond to the PRS Regulations, albeit these buildings may not reach the EPC B target. When the rollout reaches 100%, this does not mean that the entire stock achieves EPC B by 2030. Instead, this translates to the whole building stock having done something under the PRS Regulations, though as the cumulative rate of response increases, more buildings will achieve the EPC B target.

Figure 3: Cumulative Response Rate to EPC B Central 2030 Regulations



Under the revised estimate, the total carbon savings over Carbon Budget 5, which runs from 2028-2032, have fallen by around 1.2MtCO₂e. Of these, around 0.7MtCO₂e are non-traded emissions.⁴² The Net Present Value (NPV) of the option has fallen by £1.5bn, from £6.2bn previously, to £4.7bn now.⁴³ Similarly, the total estimated saved energy has fallen from 12.4TWh to around 10.9TWh, a fall of around 1.5TWh by 2030.

The main drivers of these changes are the inclusion of BAU installations in the baseline, which should be accounted for when considering the size of the policy’s net benefit, and the updated HVAC assumptions.

⁴¹ 9.4% tenancy turnover comes from 7.5% + 1.9% (half of 3.8% tenancy turnover for years 6-10).

⁴² Non-traded CO₂e emissions can be defined as savings outside the EU emissions trading scheme

⁴³ Denoted in tables as “SNPV”- Social Net Present Value. This accounts for total social impacts (private and social costs and benefits) of the policy

Table 1: Updated assessment of an EPC B by 2030 target. Figures may not add up to due rounding

	SNPV £bn 2019 Discounted to 2018	Non-traded Carbon over CB5: 2028- 2032 (MtCO _{2e})	Total carbon over CB5: 2028-2032 (MtCO _{2e})	Total energy saved 2030 (TWh)
EPC B central 2020	£4.7	-4.6	-7.9	-10.9
EPC B central 2019	£6.2	-5.4	-9.2	-12.4
Change in estimates	-£1.5	0.7	1.2	1.5

Updated estimate of setting MEES to EPC C

Similarly, we have produced a new set of central estimates of the impact of MEES under an EPC C by 2030 trajectory. Table 2 shows the updated central estimate, under a 7-year payback restriction, against the estimate in the 2019 IA⁴⁴.

Under the revised estimate, the total carbon savings over CB5 have fallen by around 0.5MtCO_{2e} compared to the previous estimate. Of these, around 0.3MtCO_{2e} are non-traded emissions. The NPV of the option has fallen by around £2.2bn, from £3.1bn previously, to £0.9bn now. Total energy savings in 2030 have also fallen by around 0.8TWh, from 4.4TWh to 3.6TWh compared to the estimate published in the 2019 consultation IA.

As with the revised EPC B scenario, the main drivers of the reduced benefits under this option are the updated HVAC cost assumptions, and the removal of any BAU activity.

Table 2: Updated assessment of an EPC C by 2030 target. Figures may not add up to due rounding

	SNPV ⁴⁵ £bn 2019 Discounted to 2018	Non-traded Carbon over CB5: 2028- 2032 (MtCO _{2e})	Total carbon over CB5: 2028-2032 (MtCO _{2e})	Total energy saved 2030 (TWh)
EPC C central 2020	£0.9	-1.2	-2.5	-3.6

⁴⁴ The rollout profile for EPC B central 2019 and EPC B central 2020 are the same.

⁴⁵ SNPV = Social Net Present Value of the option. This captures the net social impact of the policy (private and social costs and benefits of the policy).

	SNPV ⁴⁵ £bn 2019 Discounted to 2018	Non-traded Carbon over CB5: 2028- 2032 (MtCO _{2e})	Total carbon over CB5: 2028-2032 (MtCO _{2e})	Total energy saved 2030 (TWh)
EPC C central 2019	£3.1	-1.5	-3.0	-4.4
Change in estimates	£2.0	-0.3	-0.5	-0.7

Comparison of measures installed

Tables 3 and 4 document the difference in the net uptake of measures between the original and updated EPC B and C policy runs in 2030.

The effects of the HVAC update broadly increased the costs of low carbon heating measures. Holding other factors constant, we would therefore expect a reduction in the total number of installations.

Table 3: Comparison of EPC B 2030 policy runs pre and post the updated HVAC cost estimates. Measures installed are net installations in 2030

	EPC B 2030 (New HVAC)	EPC B 2030 (Old HVAC)	Total number of measures installed (change)	EE measure change (percentage)
Insulation	707,800	428,000	279,800	65%
Glazing	69,700	43,200	26,400	61%
Thermal Controls	1,073,100	742,500	330,500	45%
Other Controls	583,600	480,000	103,600	22%
Lighting	1,196,100	925,300	270,800	29%
Behaviour and Awareness	0	2,500	-2,500	-100%
Heating Upgrade/Maintenance	317,300	466,500	-149,300	-32%

	EPC B 2030 (New HVAC)	EPC B 2030 (Old HVAC)	Total number of measures installed (change)	EE measure change (percentage)
Cooling and Ventilation Upgrade/Maintenance	500	24,600	-24,000	-98%
Other Thermal Efficiency	1,025,800	727,500	298,300	41%
Other Energy Efficiency	0	4,200	-4,200	-100%
Electric Heat Pumps	0	7,400	-7,400	-100%
Reversible Heat Pumps	24,300	228,600	-204,300	-89%
Gas Heat Pumps	0	215,100	-215,100	-100%
Hybrid Heat Pumps	5,400	0	5,400	N/A
Biomass Boilers	0	2,000	2,000	-100%

Table 4: Comparison of EPC C 2030 policy runs pre and post the updated HVAC cost estimates. Measures installed are net installations in 2030

	EPC C 2030 (New HVAC)	EPC C 2030 (Old HVAC)	Total number of measures installed (change)	EE measure change (percentage)
Insulation	282,800	190,900	91,900	48%
Glazing	25,700	4,200	21,500	512%
Thermal Controls	355,200	298,100	57,100	19%
Other Controls	256,300	245,400	10,900	4%

	EPC C 2030 (New HVAC)	EPC C 2030 (Old HVAC)	Total number of measures installed (change)	EE measure change (percentage)
Lighting	609,700	496,300	113,400	23%
Behaviour and Awareness	0	0	0	0
Heating Upgrade/Maintenance	165,600	241,200	-75,600	-31%
Cooling and Ventilation Upgrade/Maintenance	300	8,900	-8,600	-97%
Other Thermal Efficiency	459,700	333,900	125,800	38%
Other Energy Efficiency	0	0	0	0
Electric Heat Pumps	0	800	-800	-100%
Reversible Heat Pumps	7,100	99,800	-92,700	-93%
Gas Heat Pumps	0	93,600	-93,600	-100%
Hybrid Heat Pumps	600	0	600	N/A
Biomass Boilers	0	100	-100	-100%

Tables 3 and 4 show that low carbon heating measures such as electric and gas heat pumps in addition to biomass boilers experience a 100% decline in the number of measures installed under the updated HVAC assumptions for both EPC B and C 2030 policy and biomass boilers experience a 100% decline in the number of measures installed under the updated HVAC assumptions for EPC C 2030. Moreover, around 89% and 93% fewer reversible heat pumps are installed under an EPC B and EPC C pathway, compared with scenarios that apply the old HVAC costs.

However, we observe a substantial increase in the number of non-heating measures installed under the new scenarios. For example, just under 300,000 (65%) more insulation measures are installed under the updated EPC B estimate. For the EPC C run 90,000 (48%) more

insulation and measures are installed. Despite a near total removal of low carbon heating in the updated estimates, the decline in the total amount of carbon saved is partially offset by the increased volume of non-heating measures installed.

Additional sensitivities

Lighting and control measures only

To understand a potential worst-case scenario in which landlords do the bare minimum, we have modelled a scenario in which buildings only install cheaper measures, specifically lighting and controls, that meet the 7-year payback test. Table 6 documents the comparison between the EPC B central run and the lighting and controls. As with the updated estimates above, any BAU activity has been removed from both runs.⁴⁶ Additionally, both runs follow the same rollout profile, so any differences in the costs or benefits are not due to the time in which buildings respond.

Under this scenario, shown in table 5, the total carbon emissions saved over CB5 are around 2.5MtCO_{2e} lower than under the EPC B Central run. Non-traded carbon emissions saved are around 2MtCO_{2e} lower. Accordingly, the NPV of this option is around £0.5bn lower than the EPC B Central scenario. Whilst the NPV is lower under this pathway, as potential carbon saved drops, the fall is partially offset by the lower costs of this option.⁴⁷ This is a result of excluding more expensive options, such as low carbon heating, from the list of possible energy efficiency measures that buildings can install whilst trying to achieve an EPC B target by 2030.

Table 5: Updated assessment of an EPC B by 2030 target. Figures may not add up to due rounding

	SNPV £bn 2019 Discounted to 2018	Non-traded Carbon over CB5: 2028- 2032 (MtCO _{2e})	Total carbon over CB5: 2028-2032 (MtCO _{2e})	Total energy saved 2030 (TWh)
EPC B 2030 Lighting & Controls only	£4.2	-2.6	-5.4	-7.9
EPC B 2030 central 2020	£4.7	-4.6	-7.9	-10.9

⁴⁶ The removal of Business-As-Usual is clarified in further detail in the methodology section at the beginning of this technical annex.

⁴⁷ The present value costs of the lighting and controls only option are around 35% lower than the B central option. Benefits are around 26% lower, suggesting that the proportionally larger fall in costs partially offsets the lower benefits of this option.

Incremental milestone analysis

Background and justification

In the absence of robust information around the actual rate at which landlords will respond to new regulations and begin to install new measures, it may be the case that the rollout profile for the EPC B central (setting MEES to EPC B by 2030) is too optimistic, and hence we have explored potential impacts under a series of pessimistic scenarios.

In these sensitivity tests the final target is set at EPC B by 2030, but there is minimal response until late in the 2020s. The outputs below compare the costs and benefits of an EPC B by 2030 backstop under three different rollout trajectories and compares them against the EPC B Central (with a 7-year payback test).

It should be acknowledged that the probability of the following rollout profiles occurring in the way described is low. It is likely that there would be supply chain issues given the response to the PRS Regulations soaring in a very small timeframe. Nonetheless, the rollouts are used to illustrate a worst-case scenario in order to show the need for an approach which reduces these risks, cumulatively shown in figure 4.

Rollout 1 (R1): this rollout assumes that 60% of buildings respond to the PRS Regulations by 2029, and 100% of buildings have responded by 2030. This is the intermediate rollout profile in the minimal response scenarios.⁴⁸

Rollout 2 (R2): this rollout assumes that 85% of buildings respond to the PRS Regulations by 2029, and 100% of buildings respond by 2030.⁴⁹ This is based on the rollout of EPC B Central where a cumulative total of 85% of buildings respond to regulations by 2029. However, where this rollout differs is that there is no prior response to the PRS Regulations from the years 2020 through to 2028. This is the most optimistic case of the three minimal response scenarios.

Rollout 3 (R3): this rollout assumes that 28%⁵⁰ of buildings respond by 2029⁵¹, followed by 100% of buildings in 2030. This is the most pessimistic rollout of the three minimal response scenarios.

⁴⁸ The 60% response assumes 50% of buildings respond at their earliest tenancy expiration. That yields a deployment rate of 1.9% annually between 2020 and 2025, and 9.4% between 2026 and 2029.

⁴⁹ Rounded in the explanation of rollout but precise figure shown in figure 4.

⁵⁰ Rounded in the explanation of rollout but precise figure shown in figure 4.

⁵¹ The rollout was derived through analysis of tenancy renewal rates from the British Property Federation. Under this scenario only 25% of buildings comply at the earliest tenancy expiration, resulting in a deployment rate of around 1% until 2025, and 4.7% thereafter, which leads to 28.3% by 2029. This rollout profile is provided to capture a situation in which very few buildings respond to the regulations until 2029.

Figure 4: Cumulative Response Rate to EPC B 2030 Regulations

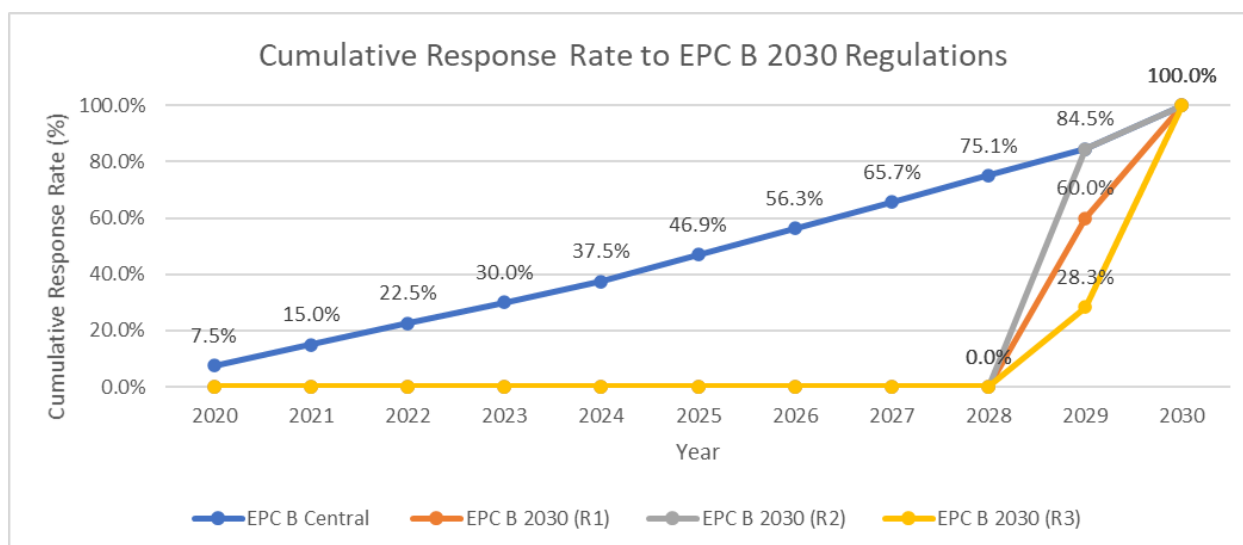


Table 6: Comparison of late rollout EPC B scenarios against central estimate

	SNPV £bn 2019 Discounted to 2018	Non-traded Carbon over CB5: 2028- 2032 (MtCO _{2e})	Total carbon over CB5: 2028-2032 (MtCO _{2e})	Total energy saved 2030 (TWh)
EPC B 2030 Central 2020	£4.7	-4.6	-7.9	-10.9
EPC B 2030 (R1)	£3.4	-3.3	-5.6	-10.9
EPC B 2030 (R2)	£3.4	-3.6	-6.2	-10.9
EPC B 2030 (R3)	£3.3	-2.8	-4.9	-10.9

The results indicate that the greater the rollout compliance earlier on, the higher the NPV, non-traded and total carbon savings. The intermediate rollout profile, R1, leads to a 17% increase in non-traded carbon savings and a 15% increase in total carbon savings compared to the most pessimistic rollout, R3. Similarly, the most optimistic rollout profile (R2) leads to a 30% increase in non-traded carbon savings and a 26% increase in total carbon savings compared to R3.

Incremental Milestone (2025 and 2027)

Given the risks of a delayed response to the policy, analysis is undertaken to examine the impact of two different incremental milestones, namely 2025 and 2027. The incremental

milestone is a step method which can help to reduce the risk of a late mover situation whereby many landlords will install more energy efficient measures close to the deadline of 2030. The incremental milestone can act as an early signal regarding the policy ambition of reaching EPC B by 2030 and can lead to greater compliance.

2027

The following section provides analysis of the impact of an EPC C 2027 incremental milestone, under three different rollout profiles.

Rollout A: this is based on the annual response rate from the original lease data. This assumes that 100% of buildings respond to the EPC C by 2027 regulations, following which 9.4% of buildings respond to EPC B 2030 regulations by 2028, 18.8% by 2029 and 100% of buildings by 2030. This models the most pessimistic rollout profile of the 2027 incremental milestones.

Rollout B: this is based on EPC B Central rollout profile. This assumes that 100% buildings respond to the EPC C by 2027 regulations, following which 75.1% of buildings respond to EPC B 2030 regulations by 2028, 84.5% by 2029 and 100% of buildings by 2030.⁵² This models the most optimistic rollout profile of the 2027 incremental milestones.

Rollout C: this is based on a linear rollout. This means that for EPC C 2027 to B 2030, you have roughly a third of buildings responding in each year from 2027 to 2030.

To calculate the full policy impact of the incremental milestone policy runs, we combine a run which measures the policy impact of achieving EPC C by 2027 with the runs which measure the policy impact of achieving an EPC B by 2030, having started from an EPC C in 2027.

The rollout profile used to model buildings responding to EPC C by 2027 regulations follows that of the B Central rollout, illustrated in figure 3. Whilst the B Central rollout assumes that 100% of buildings will have responded to the EPC B regulations by 2030, EPC C by 2027 assumes that 100% of the buildings will have responded to the EPC C regulations by 2027.

⁵² Please refer to figure 3 for the Updated EPC B estimate to be aware of how this rollout profile was established. Note that buildings do not respond to the final EPC B 2030 target until after 2027.

Figure 5: Cumulative Response Rate to EPC C 2027 Regulations

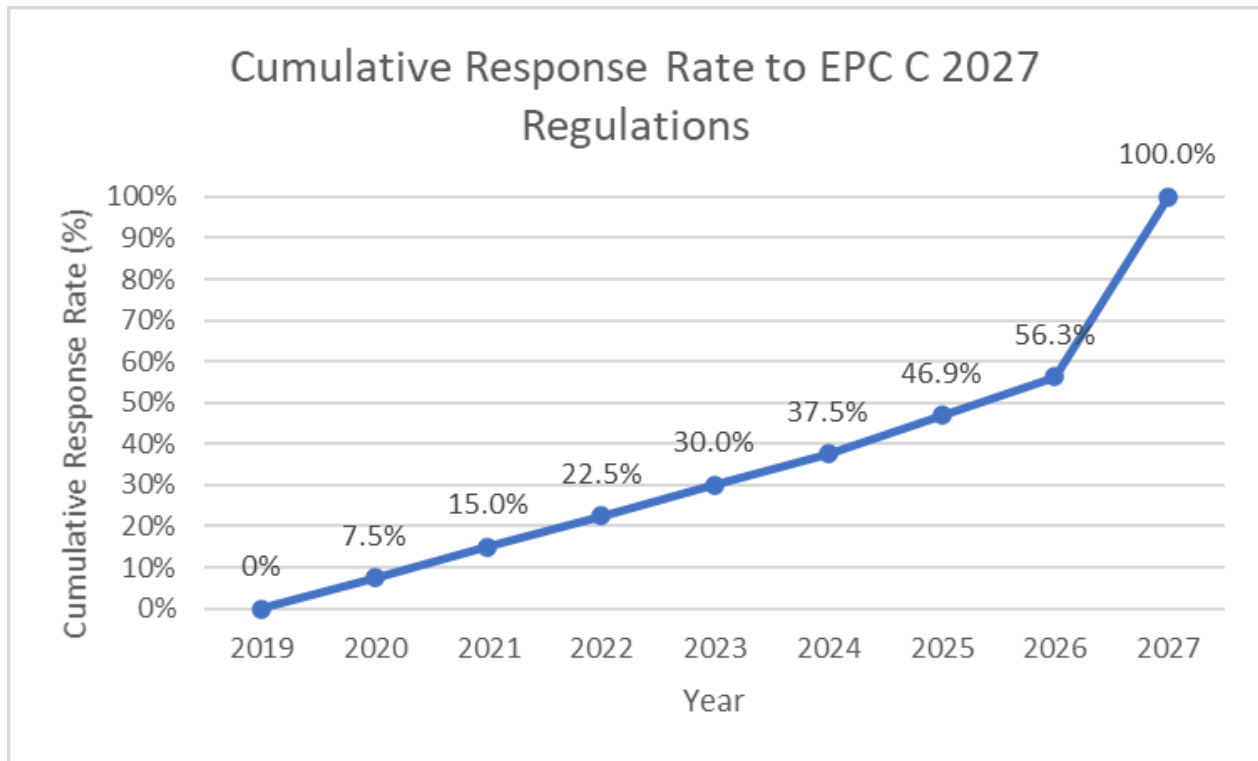


Figure 5 illustrates the rollout profile that is used to model the initial policy impact of EPC C 2027 which then feeds into the incremental run figures. Given that 2027 is the target year for the EPC C regulations, there is no further building response in the years after. Instead, buildings would respond to the EPC B 2030 regulations, the rollouts of which are shown in figure 6.

Figure 6: Cumulative Response Rate to EPC B 2030 Regulations from 2027

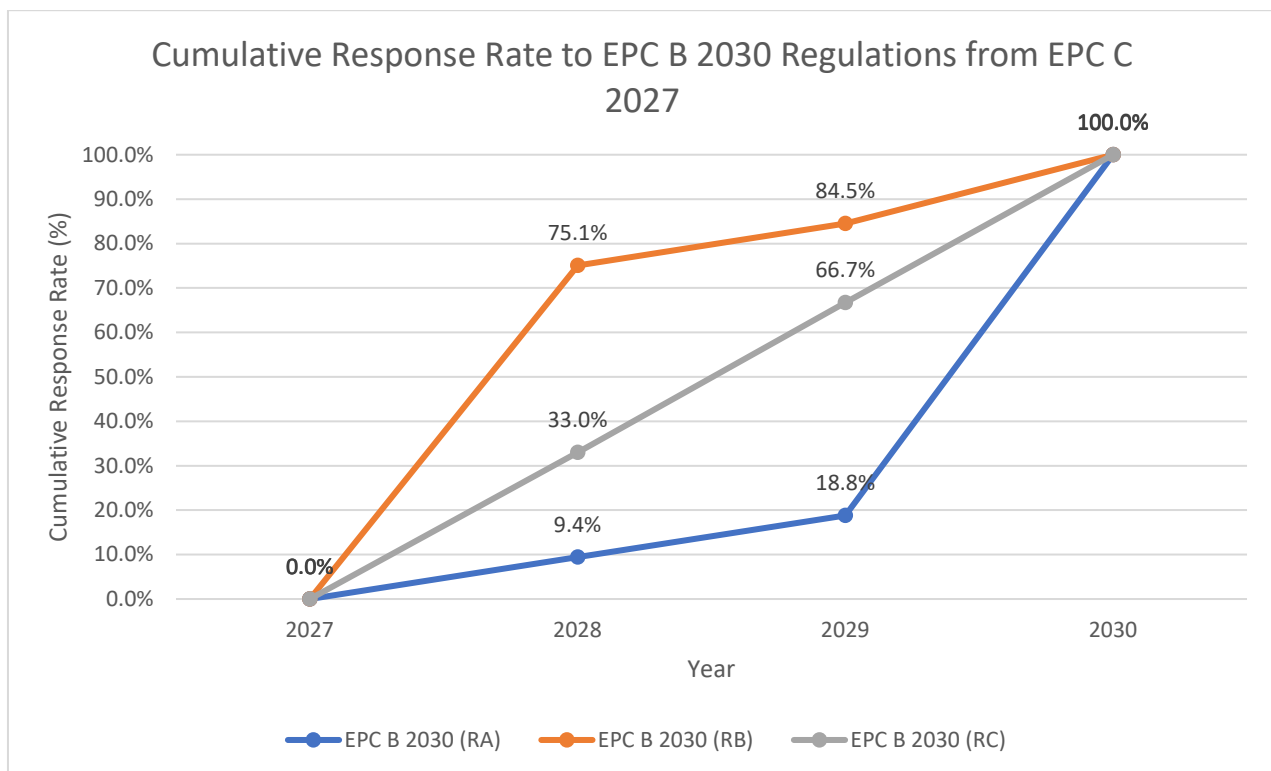


Table 7: Impact of a 2027 incremental milestone with an EPC B 2030 backstop

	SNPV £bn 2019 Discounted to 2018	Non-traded Carbon over CB5: 2028- 2032 (MtCO ₂ e)	Total carbon over CB5: 2028-2032 (MtCO ₂ e)	Total energy saved 2030 (TWh)
EPC B 2030 Central 2020	£4.7	-4.6	-7.9	-10.9
C 2027 B 2030 (RA)	£2.2	-2.9	-5.6	-10.2
C 2027 B 2030 (RB)	£2.5	-4.1	-7.6	-10.3
C 2027 B 2030 (RC)	£2.4	-3.6	-6.7	-10.2

Table 7 shows the NPV, CB5 savings and energy saved for several 2027 incremental milestones. Like prior results, the most optimistic rollout profile provides the highest level of carbon savings. Mandating an incremental milestone can allow for additional carbon savings – comparing the most optimistic, intermediate, and pessimistic rollout profiles with and without an incremental milestone (Table 6), results show that the incremental milestone leads to an increase in total carbon savings of 15%, 23%, and 19%, for the optimistic, intermediate and pessimistic rollouts.

2025

As an additional sensitivity, we have brought forward the incremental milestone of EPC C to 2025 from the previous 2027 target. The following full incremental milestones policy impacts have been calculated following the steps previously outlined in the 2027 incremental runs section. The EPC C 2025 rollout profile is similar to the EPC C 2027 rollout profile modelled in figure 5, apart from a 100% response rate to the PRS Regulations are noted in the year 2025, after which buildings respond to the EPC B 2030 regulations. The following section focuses on three different rollouts, cumulatively shown in figure 7.

Rollout D: this is based on the annual response rate from the original lease data. This is the most pessimistic rollout profile and is similar to the rollout profile followed in 2027.

Rollout E: this is based on the original PRS rollout profile.⁵³ This is the most optimistic rollout profile and is similar to the rollout profile followed in 2027.

Rollout F: this is based on a linear rollout. For EPC C 2025 to B 2030, roughly 20% of buildings respond each year from 2025 to 2030 given the PRS Regulations.

Figure 7: Cumulative Response Rate to EPC B 2030 Regulations from 2025

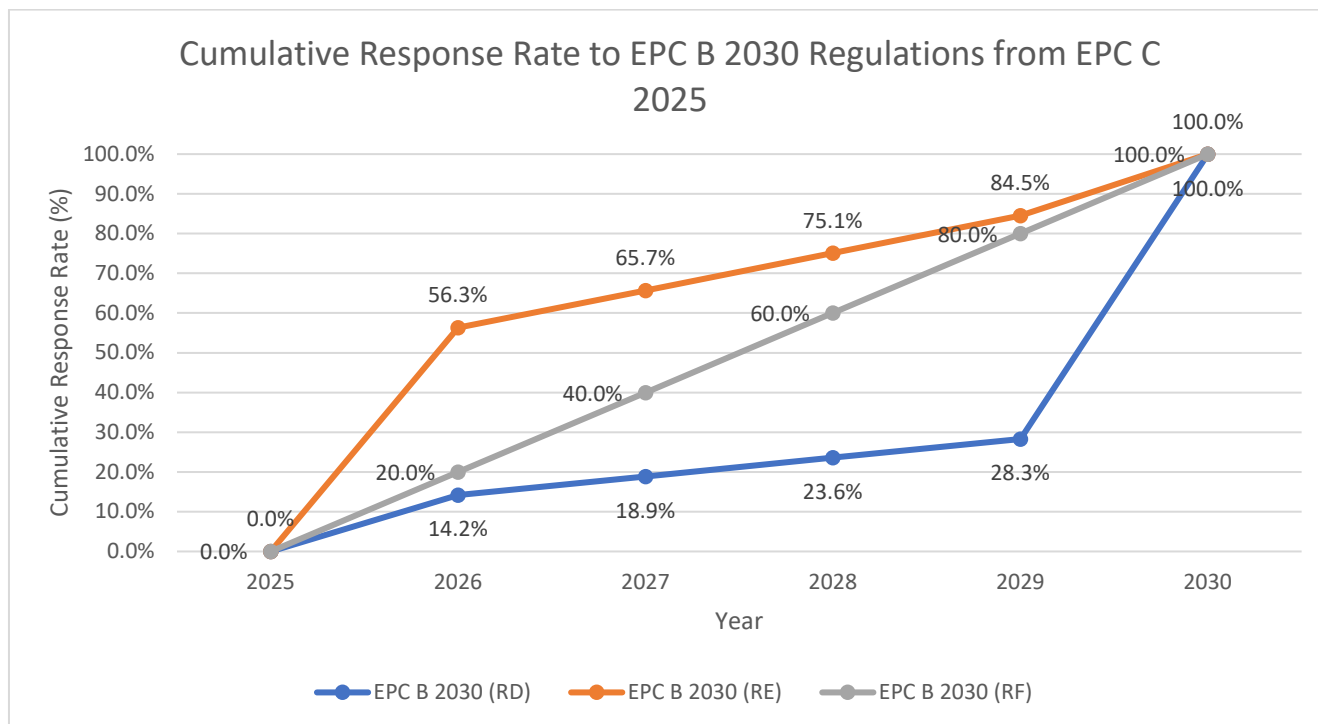


Table 8: Impact of a 2025 incremental milestone with an EPC B 2030 backstop

	SNPV £bn 2019 Discounted to 2018	Non-traded Carbon over CB5: 2028- 2032 (MtCO _{2e})	Total carbon over CB5: 2028-2032 (MtCO _{2e})	Total energy saved 2030 (TWh)
EPC B 2030 Central 2020	£4.7	-4.6	-7.9	-10.9
C 2025 B 2030 (RD)	£2.4	-3.1	-6.0	-10.2
C 2025 B 2030 (RE)	£2.7	-4.2	-7.6	-10.2

⁵³ Please refer to figure 3 and the corresponding descriptions for the Updated EPC B estimate to be aware of how this rollout profile was established. Note that buildings do not respond to the EPC B 2030 target until after 2025 hence response is 0%.

	SNPV £bn 2019 Discounted to 2018	Non-traded Carbon over CB5: 2028- 2032 (MtCO _{2e})	Total carbon over CB5: 2028-2032 (MtCO _{2e})	Total energy saved 2030 (TWh)
C 2025 B 2030 (RF)	£2.6	-4.0	-7.3	-10.2

Table 8 shows the NPV, CB5 savings and energy saved for several 2025 incremental milestones. Bringing the incremental milestone target year forward from 2027 to 2025 increases the carbon savings of each of these policy runs by 8%, 2% and 11%, across the pessimistic, optimistic and intermediate scenarios.⁵⁴ In comparison to the carbon savings realised under no incremental milestone in the pessimistic scenarios in Table 6, the optimistic, intermediate and pessimistic rollout profiles lead to an increase in total carbon savings of 30%, 23%, and 23%, respectively.

Removing large buildings

We have also examined the impact of removing large buildings (those with floor space larger than 1000sqm) from the scope of the PRS Regulations. This is because these units could move to the new performance-based framework, and therefore any benefits which materialise from large-building decarbonisation cannot be attributed to the PRS Regulations.

Large buildings represent around 5% of the private rented non-domestic stock in England and Wales.⁵⁵ However, these buildings account for approximately half of the total energy used in private rented non-domestic buildings.⁵⁶

Table 9 below provides an assessment of the impact of removing large buildings against the EPC B 2030 central estimate. Removing these units has a clear impact and reduces the overall benefits of the policy, as the non-traded carbon savings that are estimated to accrue under CB5 fall from 4.6 to 2.6MtCO_{2e}. Accordingly, the NPV of the EPC B policy falls from £4.7bn to £1.9bn.

⁵⁴ % change in non-traded emissions saved over CB5. Comparisons are between RA/RD, RB/RE, RC/RF.

⁵⁵ 5% calculated as the % of the total stock with a floorspace greater or equal to 1000sqm. Data from internal BEIS analysis of the Building Energy Efficiency Survey (BEES).

⁵⁶ Data source as above.

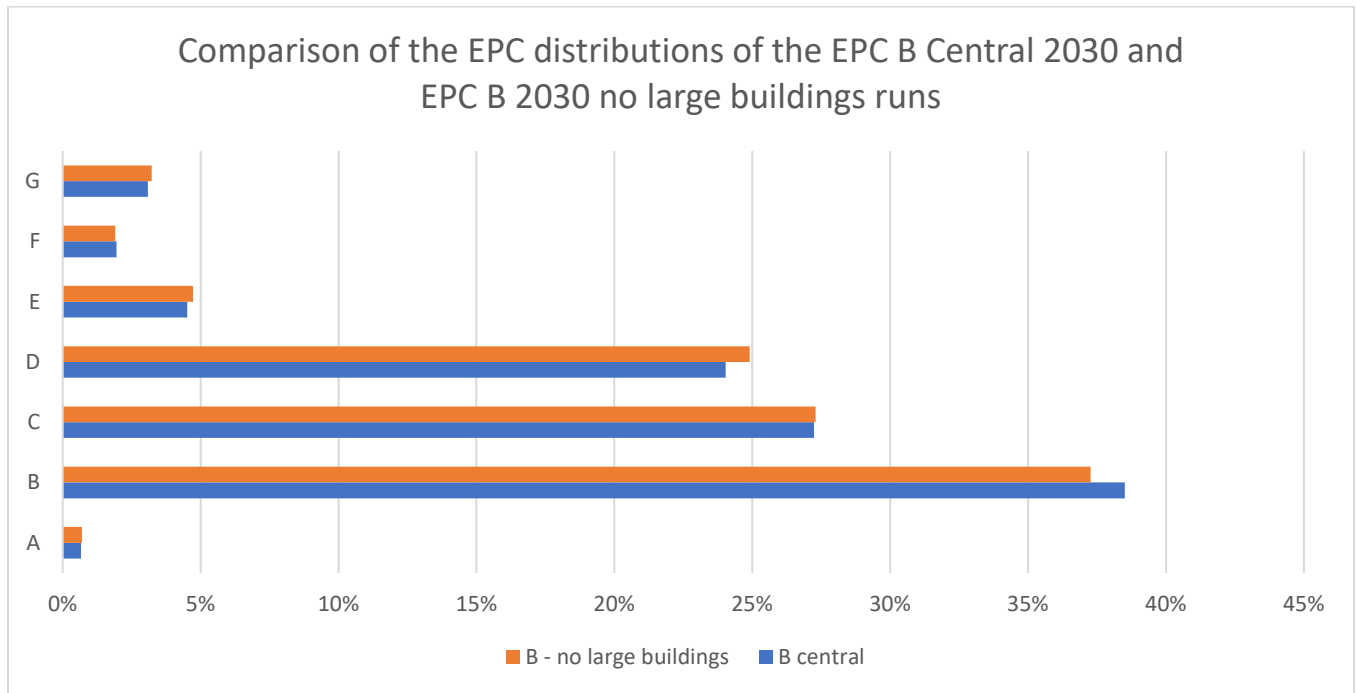
Table 9: impact of removing large buildings from the PRS Regulations

	SNPV £bn 2019 Discounted to 2018	Non-traded Carbon over CB5: 2028- 2032 (MtCO ₂ e)	Total carbon over CB5: 2028-2032 (MtCO ₂ e)	Total energy saved 2030 (TWh)
EPC B 2030 Central 2020	£4.7	-4.6	-7.9	-10.9
EPC B Central no large buildings	£1.9	-2.6	-4.4	-6.2
Large buildings impact	£2.8	-2.0	-3.6	-4.7

The lower benefits of the EPC B target without large buildings can be explained by the reduced potential carbon emissions savings under this target. A comparison of EPC distributions also sheds light on the fact that larger buildings use more energy, and therefore contribute more under the PRS Regulations, compared with smaller units. The EPC distributions shown in figure 8 compares the 2030 EPC distributions of the EPC B central run against the EPC B run without any large buildings in scope of the PRS Regulations.

Under the EPC B Central run, a greater share of buildings (39%) can hit an EPC B target by 2030 compared to the run which excludes large buildings (37%), shown in figure 8. This suggests that larger buildings are potentially better equipped to undertake the necessary improvements to meet energy efficiency requirements. However, it is also possible that the negative impact of removing these large units from the policy is partially offset by the fact that large buildings tend to have higher EPC ratings, and so therefore they are required to do proportionally less to comply with MEES than smaller counterparts.

Figure 8: Comparison of the EPC distributions of the EPC B Central 2030 and EPC B 2030 no large buildings runs.



This consultation is available from: www.gov.uk/government/consultations/non-domestic-private-rented-sector-minimum-energy-efficiency-standards-epc-b-implementation

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