

HHIC response to Domestic Private Rented Sector Minimum Level of Energy Efficiency Consultation

About HHIC

The Heating and Hotwater Industry Council (HHIC) are the leading representative body for the UK domestic heating and hot water industry, worth £3-4 billion per year. HHIC's membership base covers approximately 94 per cent of heating and hot water solutions available in the UK. HHIC are a division of the Energy and Utilities Alliance (EUA).

Full Response

- 1. Do you agree with the policy proposal under consideration here to introduce a landlord contribution element where funding is unavailable to ensure improvements to Band F and G properties can be delivered (unless a valid exemption applies)? This would be subject to a cost cap. If you do not agree, what are your objections, and how do you recommend the energy efficiency minimum standard should be achieved, given the current funding climate? Please provide reasons and evidence where available to support your views.**

HHIC agrees with the policy proposal to introduce a landlord contribution element where funding is unavailable to ensure improvements to band EPC rated F and G properties can be delivered.

Although we agree with introducing a landlord contribution cap, we believe the cap should be set at £5000, not the proposed £2500, as £5000 is about the cost of a new central heating system.¹ A cap that allows for the introduction of a central heating system is necessary because firstly, we believe a central heating system is the best way to improve the EPC of a house, and secondly it can also reduce damp and increase the value of the property. Further, a central heating system is a superior way for most houses to improve

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669198/PRS_Minimum_Standards_Consultation_2017.pdf

their EPC rating, because not all homes can be fully insulated, as some houses do not have simple cavities or due to the period they were built in.

We urge the government to recognise that not all homes can be insulated, but all homes could benefit greatly from a new central heating system.

However off-gas grid properties will find it much more difficult to reach the minimum standard due to the way in which EPCs are calculated. An off grid property may have all reasonable measures already installed and still not meet the standard due to EPC calculation methodology which uses fuel cost as used as a proxy for efficiency and all off-grid fuels are more expensive than natural gas.

The more we see that EPCs will be the tool by which building standard improvements are driven, the more we feel that they must be reviewed in order that they are accurate, fair and effective.

We understand that EPC calculation methodology is not under review in this consultation. Our response however aims to demonstrate how features in the EPC calculation methodology could jeopardise the effective implication of the PRS regulation, particularly in off-gas grid locations.

In the UK and EU all large appliances, such as white goods and TVs are required to carry energy efficiency ratings, so that customers can make informed decisions in order to save money from lower bills and help to reduce emissions at the same time. Over time the requirements on product manufacturers have increased whereby in almost all cases only A rated products can be sold. This has come at significant cost to businesses, however they understand that to be operate in this market you have to meet specific standards.

HHIC believes the same principal should apply to private landlords. They are putting an energy using product onto the market and so should have to meet high energy efficiency targets.

Evidence shows that tenants living in the private rented sector in F or G rated homes, face significantly higher energy bills, than those living in E or above homes, of up to £600 a year more.² Tenants are consumers, and as such deserve thermal comfort. The ErP (Energy Related Products) directive defines a minimum performance criteria that manufacturers must meet, for boilers, water heaters and other heating appliances up to 400 kW. This not only empowers consumers, but also holds manufacturers to account when producing products.

2a. Do you agree that a cost cap for improving sub-standard domestic private rented property should be set at £2,500? If you do not agree, what would be the most

² <https://www.gov.uk/government/collections/fuel-poverty-statistics%232014-statistics>

appropriate level to set the threshold? Please provide reasons and evidence where available to support your views.

After researching the costs, together with other leading industry bodies, and by using the consultation's own data, we have come to the conclusion that this proposed £2500 cap is not ambitious enough. Helping 30% of houses reach EPC band E is less than the bare minimum. The consultation states that the £2500 cap 'strikes the right balance between achieving a robust ambition for the policy at a reasonable cost to the landlord'. Neither of these assertions are correct, as option 2 would only help 85,000 houses reach an E rating, whereas, option 4, of £5000 would help 120,000. Option 2 is neither ambitious, nor reasonable for tenants as only 139,000 get insulated with this plan, whereas option 5 allows 260,000, almost twice the number.

Through reviewing the supplementary impact assessment (IA) within the consultation and conducting our own economic analysis of the four policy options, our belief is that cost cap of £2,500 is sub-optimal when ensuring as many Band F and G PRS properties reach the Band C energy efficiency threshold. Our investigation into the impact assessment identifies several reasons which suggest the cost cap considered may not necessarily come as a product of sound empirical evaluation.

Firstly, we believe the rationale behind the intervention remains fundamentally unclear as on one hand, there is no doubt the PRS requires economic intervention, as currently there is no such obligation for landlords to improve overall energy efficiency ratings of their properties. However, it is unclear whether there is equal importance being put on the social intervention. For instance, examining the Cost-Benefit Analysis (CBA) further creates ambiguity with regards to this.

The use of Net Present Value (NPV) within the CBA undoubtedly allows for the quantification of both costs and benefits in order to analyse the effectiveness of each policy option. Despite its advantages, the NPV across the policy options seems to present a level of imbalance. For instance, policy option 1 (cost cap of £1,000) indicates an NPV of £301m suggesting that the largest net benefit of all four policy options comes as a result of putting the smallest average cost on the landlord. The NPV rule would suggest that the higher the NPV the better the investment option. However, the IA indicates that policy option 2 (cap of £2,500) is the optimal option as it allows for an increase cost burden to be placed on the landlord while forgoing a higher net benefit. This in itself indicates an imbalance when employing NPV as a means of choosing among policy alternatives within this context.

In addition, analysis of all four policy options indicates that from a monetary perspective it is an overall good investment as neither policy option indicates a negative NPV. Therefore, providing justification for initial economic intervention.

However, our belief is that the use of NPV does not accurately take into account all the social benefits that come from improving energy efficiency ratings of PRS properties. For instance, there is no inclusion or quantification of the improved social wellbeing that comes as a result of upgrading the energy efficiency rating of dwellings. A recent paper by the Housing Associations' Charitable Trust (HACT) provides evidence to suggest that property related issues or circumstances all have significant association with the wellbeing of individuals living in affected properties. Using the individual's health as a key variable, they find a method to place monetary values on the improved wellbeing of individuals when the EPC rating is improved of their property. It is calculated that an improvement of one EPC band equates to £217 on average across all age ranges with the value being higher the older the individual is. If the CBA were to take into consideration improvements in social wellbeing, alongside monetary savings felt by the taxpayer as a result of improved health putting less strain on the NHS. The NPV value across all policy options would increase further.

However, due to the justifications detailed above alongside the fact that the IA indicates that achieving greater progress towards the statutory Fuel Poverty targets is not included in the quantification of the NPV. We believe the NPV is not a good indication of the optimal cost cap placed on landlords. We find that in order to maximise all social benefits and work towards the fuel poverty target decision making should be done on which policy option allows for the correct resource allocation to maximise social benefits. Therefore, in this case we believe that a cost cap of £5,000 is the most appropriate level, on the basis that it yields the highest percentage of PRS homes reaching Band E in 2020 alongside the highest percentage point change in fuel poor households.

By reading the consultation, which proposes three different caps, we have come to the conclusion that the proposed £2500 cap is the second worst possible option, as it helps the second least homes, and cannot provide for a new central heating system, which is often essential in homes that lack one. If the government were to adopt the £2500 cap, this would be helping landlords, not tenants, who are supposed to be the beneficiaries of this policy.

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

HHIC agrees with the proposal that a cost cap should be inclusive of VAT, because the prices in our data are inclusive of VAT, so there is no reason to exclude VAT from the cap. Landlords cannot charge VAT on rent, or reclaim VAT from buying energy efficient materials for the house, therefore making the cap inclusive of VAT would make it cheaper for landlords to meet their obligations. Whereas, a cost cap exclusive of VAT could make the measures between 5 and 10% more expensive³. Our aim is to ensure houses reach E by any means, not leaving landlords with unreasonable costs, therefore we support the proposal to include VAT.

3. Do you agree that a cost cap should not take account of spending on energy efficiency improvements incurred prior to 1 October 2017? If you do not agree, what would be the most appropriate way of taking account of previous spending on measures which have failed to raise a property above EPC F or G? Please provide reasons and evidence where available to support your views.

We agree that the cap should not take account of spending on energy efficiency improvements incurred prior to 1 October 2017 if it has failed to raise a property above EPC F or G, because the aim is to get a property to E and any measures that are below this standard are not effectively contributing toward this end. In other sectors, such as white goods regulation, regulators would not allow measures to improve the energy efficiency of a fridge that did not work to be counted towards their obligations, therefore they should not count in the private rented sector either.

4. Do you agree with the proposal that where a landlord contributes to the improvement, the cost cap threshold should be inclusive of any funding which can be obtained through a 'no cost' finance plan (including a Green Deal finance plan), Supplier Obligation Funding (for example, ECO: Help to Heat or a successor scheme), or 13 Catalogue of consultation questions energy efficiency grant funding from a Local Authority or other third parties? If you do not agree, please provide reasons and evidence where available to support your views.

HHIC agrees with the proposal that where a landlord contributes to the improvement, the cost cap threshold should be inclusive of any funding which can be obtained through a no cost finance plan. The aim is to get a property to E or above, not for the sake of penalising landlords, but to improve the lives of tenants, and to reduce energy consumption. Following from this, if a landlord is improving the efficiency of a home, through another means of

³https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669198/PRS_Minimum_Standards_Consultation_2017.pdf

finance this is a positive step, and should be recognised as contributing toward the cap. As previously mentioned, any improvements must raise the energy efficiency rating of the property to be counted as meeting obligations. For example, purchasing insulation using ECO finance that made no difference to the rating of the house would not count.

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

HHIC agrees that it is not necessary to place a regulatory duty on energy suppliers, or their agents to provide landlords with cost information relating to the value of energy efficiency improvements made to the landlord's property through a supplier obligation. However, there needs to be some mechanism to ensure landlords can access the costs.

6. Where a landlord is intending to register a 'high cost' exemption, should the landlord be required to provide three quotes for the cost of purchasing and installing the measures, in line with the non-domestic minimum standards? If you do not agree, please provide reasons and evidence where available to support your views.

Providing three quotes for the cost of purchasing and installing the measures, as well as the aforementioned, when a landlord is registering a high cost exemption is necessary, because otherwise a landlord could simply ask a friendly plumber to provide a higher quote to exempt them from the requirements. The quotes should come from suitably registered installers, to ensure a loop hole is not created that would allow landlords to escape their duties to tenants.

7. Do you agree with the proposal to limit the validity of any 'no cost to the landlord' exemptions (under Regulation 25(1)(b)) registered between October 2017 and the point at which a capped landlord contribution amendment comes into force? If you do not agree, what are your objections, and how do you recommend that the minimum standard regulations be amended to ensure the energy efficiency improvements are delivered to such properties which might otherwise be left unimproved once the amended regulations came into force? Please provide reasons and evidence where available to support your views.

HHIC agrees with the proposal to limit the validity of any 'no cost to the landlord exemptions' registered between October 2017 and the point at which the amendment comes into force.

This will ensure no tenants are left without improvements to their homes, because of a loophole. If the validity of no cost to the landlords exemptions registered between October 2017 and the point at which a capped landlord contribution comes into force was not limited, this would result in no measures being taken for 5 years. Exemptions could previously be granted if the landlord failed to secure consent from the tenant to use green deal finance, however now that the onus is shifting to landlords to contribute more towards measures, this exemption is no longer going to be valid, so it makes sense to end the validity of any exemptions relating to it.

8. Do you have views on whether the consent exemption under Regulation 31(1)(a)(ii) should be removed from the minimum standard regulations or retained? Please provide reasons and evidence where available to support your views.

The consent exemption means that if approval from the tenant cannot be obtained to carry out works, or approve a Green deal finance plan, then the landlord can register an exemption. HHIC believes the consent regulation should be removed so that more houses can reach the E band by 2020.

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

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

Please see our answer in 2a

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

Whilst we are aware of concerns surrounding the potential for rents to be increased as a way of covering the costs of installing new heating systems/improving domestic thermal

efficiency, the plausibility of this argument can be called into question given the range of safeguards in place to protect tenants and the fact that many of the properties are already 'top rate' for the area, leaving little movement for price increases⁴. Further, the impact assessment says that, 'landlords are typically price takers, rather than price setters, and the 5% of them affected by this proposal may struggle to remain competitive if they sought to recover costs by raising rents significantly above the average area market place'⁵. They also quote BEIS, who found that the imposition of these costs on landlords is unlikely to affect rent prices because of the relatively small proportion of landlords required to act. Further the University of Cambridge CCPHR found that the majority of PRS landlords have high levels of financial resilience and can cope with 'substantial income shocks' and unexpected improvements to properties⁶.

The Rent Assessment Committee (RAC) exists to ensure due process if a tenant believes rents to be too high in comparison to the market rate. Further, legally, rents can only be increased once a year and, for a fixed term tenancy, your landlord can only increase rent with consent; if you don't agree, the rent can only be increased when the fixed term ends. As a result of these protections, rents are not as volatile as some assume

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

A landlord will already have an EPC to legally let the property, so that start point will already be known. A Green Deal Finance Assessor will only complete a report on a new EPC (cost from the case study £220 + VAT) once measures are installed, a new EPC would be required so check where the property now stands. This can cost anywhere between £60 and £120. This means spending £300-350 on reports

Contact

If BEIS wishes HHIC to clarify any of the points outlined in this consultation please contact Isaac Occhipinti, Head of External Affairs at isaac@HHIC.org.uk, 01926 513746 or HHIC, Camden House, Warwick Road, Kenilworth, Warwickshire, CV8 1TH.

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669214/PRS_Consultation_stage_IA.pdf

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