



Our Energy Efficiency Policy

Residential Landlords Association

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RESIDENTIAL LANDLORDS
ASSOCIATION

About the Residential Landlords Association (RLA)

The Residential Landlords Association represents the interests of landlords in the private rented sector (PRS) across England and Wales. With over 23,000 subscribing members, and an additional 16,000 registered guests who engage regularly with the Association, the RLA is the leading voice of private landlords. Combined, they manage almost half a million properties.

The RLA provides support and advice to members, and seeks to raise standards in the PRS through our code of conduct, training and accreditation and the provision of guidance and updates on legislation affecting the sector. Many of the RLA's resources are available free to non-member landlords and tenants.

The Association campaigns to improve the PRS for both landlords and tenants, engaging with policymakers at all levels of Government, to support our mission of 'making renting better'.

Executive Summary

This paper sets out our policy in relation to energy efficiency for the least energy efficient privately rented properties, as well as in relation to tax relief for energy efficiency improvements generally.

1. This Briefing looks at particular aspects of energy efficiency in the PRS, namely the implementation of the compulsory minimum E rating under an EPC for privately rented homes starting in April 2018 and the Government's proposals for changes to the Energy Company Obligation (ECO) which provides financial assistance for energy efficiency works. Up to 330,000 PRS properties are affected by the compulsion provisions. It will be illegal to rent out a non compliant property generally speaking. The Government estimate the average cost per property to be £1,800 but in our member's survey landlords estimate £7,200 per property on average. The Government's average estimated cost is in any case a generalised figure disguising different underlying scenarios and differing actual costs.
2. Since the legislation introducing compulsion was originally introduced there have been major changes; not least the ending of the Green Deal, at least for the time being. Importantly, this legislation was passed on the promise that there would be no upfront cost to the landlord involved and the Government are now proposing to abandon this principle. Compulsion is being introduced just at the time the PRS is being deprived of cash flow due to the restrictions in mortgage interest tax relief and other tax changes.
3. Unless there are changes, as matters stand, compulsion in the PRS could well work against the interests of those tenants who are in fuel poverty. Wherever they can landlords will recoup the cost of improvements through rent increases. Many landlords simply cannot afford the cost. Landlords will sell up and evict their tenants to do so. This is due to insufficient ECO funding being available and Green Deal no longer being the backstop.
4. The Government should delay implementation of compulsion until decisions on these proposals are finalised.

5. Currently energy performance certificates (EPCs) under estimate the energy efficiency of solid walls. The Government have promised to re-calibrate EP software but this has yet to be implemented. In some cases, this will take properties outside compulsion altogether and in others reduce the extent of the work required. Sufficient lead in time is needed for these changes to be assimilated.
6. At the moment, there is an exemption to prevent landlords having to spend an excessive amount. This is currently based on the Green Deal “Golden Rule”. Instead of this current safeguard the Government are proposing a cash cap under which landlords will be required to spend the entire cost of the work up to £5,000 to meet the cost of the work, with an exemption for expenditure above that limit where the property still does not reach an E rating. If the exemption applies, then it will remain legal to let out the property. Under the Golden Rule, in effect, only insulation and cavity wall insulation (where practical) were required but the new cap will mean much more will have to be spent by landlords. Significantly, the new exemption limit will exceed the savings achieved as a result of the works. Our members estimate of an average cost of £7,200 means that many will have to spend up to this cap. This will, however, not be reflected in the benefit to tenants from reduced energy bills. Resulting rent increases where these are possible could therefore mean that tenant’s living costs being increased overall as a result, because the new rent although combined with lower utility bills will still exceed the old rent and the old payments for utilities added together. This will particularly hit those in fuel poverty, i.e. the very people the Government say they are trying to help. £5,000 is a years rent for many properties outside London which will require works to upgrade them.
7. The Association would prefer to see a cost benefit approach adopted to underpin any new exemption but recognises the practical difficulties around this suggestion. Instead, therefore, we would advocate a cash cap to be set at no more than £2,500 and will protect tenants from excessive rent increases to meet the cost of the works, without the tenant benefiting from a commensurate reduction in their overall utility bills. Likewise, it will increase

the possibility of landlords having to sell the property and evict their tenants to do so.

8. This is a missed opportunity to help the worst off tenants the most.
9. Government help for landlords to meet the new compulsion requirements has been systematically withdrawn, e.g. removal of tax relief through the landlord energy saving allowance (LESA) and the effective ending of Green Deal. ECO availability will now focus on the fuel poor but overall the available amount is being reduced. In any case, ECO has traditionally had low penetration in the PRS. Green Deal financial help will no longer be available as a backstop for landlords who simply cannot afford the work.
10. We are calling upon the Government to make specific ECO assistance available to landlords to help implement these efficiency requirements. There should be a sector specific allocation to meet the costs of compulsory improvements subject to the financial position of the tenant being assessed. This would avoid adverse impacts of rising rents to meet the cost. In areas of multiple deprivation PRS properties should be exempt from means assessment for ECO assistance.
11. We reject the Government's argument that, as the number of properties requiring improvement relative to the sector as a whole is small, rents would not increase to meet the cost of the improvement works. They will where they can. At the same time, ever increasing costs imposed on landlords due to taxation changes and additional responsibilities, combined with the cost of energy efficiency improvements, will inevitably lead to upward pressure on rents for tenants.
12. Specific help is also needed for those with solid wall properties through ECO but, again, this will be limited. The PRS comprises a greater proportion of older pre-1919 stock which has solid walls and therefore presents very real challenges.
13. The RLA is calling for a PRS Partnership to bring together stakeholders such as landlord associations and energy suppliers to help implement the minimum energy efficiency requirement.

14. The RLA maintains that primary legislation will be needed to change the law although the Government has suggested that the necessary changes can be made through implementing secondary legislation.
15. The RLA is also calling for tax relief to be re-instated so that the costs of energy efficiency measures recommended on an EPC certificate can be off set against income tax. Capital allowances should be available again against income tax for more extensive energy efficiency schemes carried out by landlords

Our Members' Survey

Number of respondents with an F or G rated property: **342**

We asked landlords for the size of their general housing portfolio's, they responded with the following:

- 34% have 9+ properties
- 22% have 2-3 properties
- 17% have 1 property
- 14% have 4-5 properties
- 14% have 5-8 properties

We asked landlords on how many of their properties have an F or G rating, they responded with the following:

- 48% have 1 property
- 32% have 2-3 properties
- 11% have 4-5 properties
- 6% have 5-8 properties
- 5% have 9+ properties

We asked landlords for the region of where their F or G rated properties, the most impacted regions are the following:

- 17% have properties in the South West
- 14% have properties in the North West
- 14% have properties in the South East
- 13% have properties in Yorkshire and Humber

We asked landlords for the location types of the affected properties, they responded with the following:

- 52% of landlords have Town location type properties
- 22% of landlords have City location type properties
- 17% of landlords have Rural location type properties
- 9% of landlords have Urban location type properties

We asked landlords for the average current rent for their F or G properties, from the analysis of the data provided the average rent is £789 per month.

We asked landlords for an estimate on how much per property they expect it to cost to bring it up to E standard. From the analysis of the data provided, the average cost is: £7,201

We asked landlords how they expected to fund the energy improvement works, they responded with the following:

- 45% would fund the works through savings
- 39% said they would be unable to find the money
- 17% would fund the works through personal finance (borrowings)
- 5% would fund the works through personal finance (credit cards)
- 7% would fund the works through personal finance (personal loans)

We asked landlords if they would be able to put up their rents to recover the costs of the works. They responded with the following:

- 77% responded no
- 23% responded yes

We asked landlords if they will be looking to sell any of their F or G properties as a result of the new requirements. They responded with the following:

- 52% of landlords will be looking to sell some of their F or G properties
- 48% of landlords will not be looking to sell

We asked landlords if they are looking to sell, will they evict the tenants. They responded with the following:

- 65% of landlords will evict the tenant
- 35% of landlords will not look to evict the tenant in case of a sale

Introduction

As matters stand, from the 1st April 2018 it will be unlawful for private residential landlords to let a property unless it attains an E rating under an Energy Performance Certificate (EPC). This requirement will be extended to existing residential tenancies as from 1st April 2020. There are certain exemptions under the legislation. It is estimated that there are up to 330,000 properties with EPC ratings F and G in the PRS. However, this includes a number of solid wall properties, possibly at least 100,000, where proposed adjustments to EPC ratings will mean that they are moved into Band E or they move from Band G to Band F. Of the properties affected by the minimum Band E requirement around 150,000 are occupied by those in fuel poverty. The proportion of F and G rated properties in the PRS, as compared with those in the owner/occupied sector, is the same. However, 19% of all households in the PRS are estimated to be in fuel poverty, whereas only around 7.5% of households in the owner/occupied sector are in fuel poverty, in England.

Overall in all sectors, currently some 2.38 million households are estimated to be in fuel poverty in England with 4.5 million households in fuel poverty throughout the UK. Even with the Government's proposed changes to ECO not all of them will be eligible for assistance with ECO funding. Dealing effectively with the properties those in fuel poverty live in is an effective way to address fuel poverty so as to ensure that the homes of those affected are energy efficient, well insulated and warm. There are significant benefits in doing this, not least for the residents themselves, but also it reduces State expenditure on health and welfare provision. It also improves the lives of those affected as they have to spend less on utilities or they have the option of clawing back savings in order to heat their homes to an adequate level.

Since the relevant legislation introducing compulsion in the PRS was originally introduced, circumstances have changed markedly. We are now less than two

years away from these provisions coming into effect, but the Government are now in the process of making significant alterations to the rules.

Most importantly, the legislation was introduced based on a promise that there would be no upfront cost to the landlord. This is about to be abandoned.

We believe that compulsion in the PRS will now work against the interests of those tenants in fuel poverty in the light of these alterations to policy which are being implemented by the Government.

Although we focus on the minimum requirement for an E rating in this paper as the minimum standard is ratcheted up in line with the trajectory towards the end of the next decade, what we say is equally applicable. Indeed, as higher and higher minimum standards are imposed, what we are arguing for becomes even more important, if we are to achieve a reduction in fuel poverty and at the same time provide warmer homes for the less well off in the PRS.

Deferral of implementation of compulsion

We are calling on the Government to delay the implementation of the minimum E rating requirement in the PRS until decisions are finalised and changes to the law which are required are made. It is not fair to expect landlords to comply with this requirement until the new regime, particularly around ECO funding, is established.

The principle of Compulsion

The Government has resorted to imposing compulsion on the PRS. We have no problem with this if it were across the board applicable to all tenures. However, it is inequitable to single out one sector, the PRS. If there is to be compulsion in the Sector then it should apply universally and in the case of the Owner/Occupier sector this should be dealt with at the point of sale of a property.

EPCs

The Minimum Energy Efficiency Standards in the PRS are tied to the existence of an EPC. Without an EPC, the obligations do not bite. EPCs are required at the point of letting or at the point of sale. There is evidence of evasion of EPC requirements. Overall, some 14 million dwellings currently have EPCs in England and Wales. Details are not available however of the breakdown of the existence of EPCs for different tenures including the PRS.

Changes affecting the PRS since legislation introducing compulsion in the PRS was passed.

Since the legislation was passed –

- ECO which provides financial assistance from energy efficiency improvements is changing its focus so that it will concentrate on those in fuel poverty but funding has been reduced overall.
- The Green Deal which provided finance on a pay as you save basis has been abandoned, at least for the time being.
- The effective ending of Green Deal finance means that the cost/benefit test which capped the amount a landlord would have to pay in order to reach a minimum E rating has been scrapped.
- EPCs showing an F or G rating are unreliable where, as is often the case, the properties affected by compulsion have solid walls. As a result in many of these cases the energy efficiency of the properties concerned will be better than anticipated which means no work at all may be needed or much less work required to meet the minimum energy efficiency requirements. As yet EPC software has not been recalibrated
- LESA (the landlords' energy efficiency allowance) which allowed tax relief of up to £1,500 per annum for certain energy efficiency improvements carried out by landlords has been scrapped by the Treasury.

No upfront costs for landlords principle abandoned

The requirement for minimum energy efficiency standards in the PRS was introduced by the Coalition Government on the promise that this would be at no upfront cost to landlords. This was to be achieved through ECO funding, where it was available, and the availability of the Green Deal Finance. Green Deal Finance was also intended to address the problem of the “split incentive”; where the landlord pays but the tenant reaps the benefits of reduced utility bills.

At the same time, the Green Deal “Golden Rule” was to be applied so that landlords were not required to spend more on improving F and G rated rented homes than an amount calculated according to the savings which would be achieved as a result of the works carried out. An exemption applied so that excess costs over the Golden Rule formula did not have to be spent. To give a simple example, if solid wall insulation had to be carried out to achieve an E rating, as the cost would far outweigh the resulting savings, the landlord was not required to install solid wall insulation; only those energy efficiency improvement measures which could be paid for within the Golden Rule formula were required. The landlord was exempt even though the minimum E rating was not achieved as a consequence from having to incur expenditure which exceeded the Golden Rule formula. In practice the landlord could only be required to install loft insulation and cavity wall insulation, where this was possible under the Golden Rule based exemption.

Worryingly, the Government has now indicated its intention to abandon the principle of “no upfront cost” for landlords. Instead, this is to be replaced by a cash cap, with a limit of £5,000 proposed. A cash cap of £5,000 means much more now has to be spent beyond the kind of measures that would have applied under the Golden Rule.

A landlord will have to spend up to this amount but will be exempt from expenditure over the cap. Where this applies a property can still be let even if the minimum E rating is not achieved so long as the landlord has expended money up to the cap to improve the energy efficiency of the property. Landlords claiming this exemption will have to register their properties.

The cost will now potentially greatly exceed the resulting benefit. Clearly a replacement for the Golden Rule is needed because Green Deal Finance is no longer available, but what is now proposed in terms of the cash cap is far and away in excess of the equivalent under the Golden Rule.

DECC have indicated that Ministers are now looking to see 50/60% of the hardest to treat properties in the PRS which fall within the F and G rating being improved, rather than the 44% referred to in the original Impact Assessment with the only possible financial support being the new version of ECO, which has yet to be designed. However, the intention is that the new style ECO Landlords will have to compete with owner/occupiers and social landlords for available financial assistance.

The New Cap

We would prefer a cap calculated by reference to the cost/benefit achieved as a result of the improvements. If we are looking for simplicity through a fixed sum cap we consider a maximum figure of £2,500 to be appropriate. The Government's estimated of around £1,800 per property is an underestimate in the light of the findings of our Members' Survey which indicate a much higher figure of £7,200 on average. The Government's proposed cap of £5,000 is far too high. It will result in significant rent rises for many tenants who are least able to afford them. Where this is possible. It is wholly wrong to require work costing well beyond the likely savings which will result. You cannot simply dump the capital cost on landlords and leave tenants to pick up the bill through higher rents.

Where rent rises are not achievable, landlords will want to sell up. Our survey shows that 52% of landlords would sell and significantly 65% of landlords would evict to obtain vacant possession to sell. Loss of homes, as well as rent rises, is going to be an outcome of compulsion in the PRS.

The Government argue that rent increases will not result because relatively few properties are affected. They also maintain that finance is available to assist landlords anyway. We disagree. Our Member's Survey indicated that many landlords simply

cannot afford the cost. 39% said they would be unable to find the money. The tenants of those properties which are affected will bear the brunt and face rising rents to meet the costs of the work or could lose their homes because the landlord wants to sell up with vacant possession to avoid having to carry out the required work. Most private landlords are small operators and simply cannot spread the cost across their property portfolios. Often landlords will have a number of affected properties which may well be the only properties which they own. Even if a landlord can fund the work, the landlord would be looking for a return to make sure that he/she is paid back for the improvement to the property. After all the landlord will think that the tenant will enjoy reduced energy costs and landlords will rightly seek to claw back the cost of the works where they can. Landlords will look at this on a property by property basis and the fact that the overall number may be relatively low will not help those tenants of the properties which are specifically affected. Government forgets that property rental markets are localised. Affected properties will often be concentrated in local neighbourhoods so rents will rise in affected areas. Overall national rent levels will not operate as a brake on these rent increases where the landlord is able to put the rent up.

Additionally, this must be viewed in the overall context of ever rising costs which are being imposed on landlords as a result of Government policies. Changes to taxation in relation to mortgage interest relief and the wear and tear allowance for furnished properties means that landlords will pay more tax. Extra costs for landlords result from local licensing schemes and need now to carry out right to rent checks. All of these are imposing an increased costs burden on landlords which, along with the cost of the energy efficiency improvements where required, will be passed on through increased rents wherever possible.

Importantly, the type of property affected will be those properties which are rented out, outside London, at around £100 to £125 per week. Having to spend up to £5,000 to improve the property can represent a whole year's rent from that property. The Landlord will still have to meet his/her other expenses e.g. mortgage repayments. The effect of the loss of a complete year's rent must not be under-estimated. £5,000 is a lot of money to find per property especially if you have a number of affected properties.

Landlords will also find challenges in finding the funding to meet such large expenditure which has to be paid out even before the property can be let. The option of obtaining Green Deal funding will no longer be available which was the original backstop for a landlord who could not find the necessary funds to carry out the work. Our Members' Survey confirms this. Even if the landlord can find the money then other repairs/improvements to the property will suffer as a result.

There are a lot of questions which need answering in relation to this proposal. It is suggested that there will be a list of approved measures, e.g. insulation, new boilers or new double glazing. We are concerned at the suggested inclusion of double glazing because it is well known that double glazing has a long pay back period and therefore may not be the most appropriate measure for the landlord to carry out. What is a landlord to be required to do from this list? Is the landlord going to have to simply carry out what the EPC recommends even though these are computer generated recommendations which have no direct relationship with the property in question. Will the landlord be required to carry out the measures which will produce the highest increase in the number of SAP points (which underpins the EPC banding system) for the property? Will the landlord be left free to pick and choose what work to do so long as the minimum sum is spent?

Potentially a different situation faces those landlords with low value inefficient properties with housing benefit tenants. Will landlords of these properties be able or even willing to fund the significant costs which are now proposed in the light of the high level of the proposed cap. If a landlord cannot increase the rent due to current freezing of benefit rates instead, could they simply walk away? These measures could turn out to be the trigger for more derelict and abandoned properties in the less well off areas, particularly in the north of England when finding tenants can be difficult.

The Need for action

This is not to say that steps to improve the energy efficiency of dwellings in the PRS are not needed.

The Association agrees that improving the energy efficiency of domestic properties in the UK, including those in the PRS, is essential to tackle both fuel poverty and to ensure that the UK achieves its climate change objectives. Importantly, increasing the efficiency of homes, including those in the PRS, is a highly cost effective route to dealing with the three elements of the energy trilemma which the Government has set – decarbonising energy systems, ensuring the security of energy supply and ensuring that energy is affordable. We accept that there are strong links between the energy efficiency of domestic buildings and the health and well being of their occupants including savings for the NHS. Substantial economic benefits particularly through job creation would also result. Improving the efficiency of the housing stock would lower social care costs and reduce the burden on the NHS. This is why a different approach is required.

The Association agrees that those that argue that current policies are insufficient to achieve the Government's target of bringing as many fuel poor homes in England as is reasonably practicable up to a minimum EPC rating of C by 2030. Currently, there is also a clear shortfall between the Government's targets for curbing greenhouse gas emissions and current policies.

The mean SAP rating for properties which are owner/occupied and those in the PRS has converged of late. However, due to the age of the stock in the PRS, approximately 7.5% of PRS properties in England are rated EPC Bands F or G, which is a higher proportion than in any other tenure. The PRS therefore faces significant challenges due to its older stock. The number of households in the PRS who are fuel poor is also a higher share than in the case of other tenures. More and more the PRS is having to house less well off who cannot access social housing because of shortages. These two key facts demonstrate the need, to back up the introduction of compulsion in the PRS with effective public financial assistance to enable the required improvement works to be carried out.

Another challenge in the PRS is a high proportion of properties which have solid walls. These are mainly properties built before 1919 and also many rural properties. At end of June 2015 it was estimated that 338,000 homes in Great Britain already have solid wall

insulation but this only equates to around 4% of properties with solid walls. This leaves around 7.5 million uninsulated solid wall properties in Great Britain. The remaining potential to insulate the housing stock is overwhelmingly concentrated on these solid wall properties. Solid wall properties house a considerably higher proportion of fuel poor households than cavity wall properties and they also have a larger than average fuel poverty gap, which is the amount by which the assessed energy needs for fuel poor households exceed the threshold of reasonable costs for utilities, part of the test for establishing fuel poverty. The level of solid wall insulation is also behind the Committee on Climate Changes indicator trajectory to allow the UK to meet its emission targets. The payback period for solid wall insulation is lengthy as the cost is likely to be of the order of £11,000 per property for external solid wall insulation.

A missed opportunity?

If implemented properly backed by appropriate financial assistance, the PRS minimum energy efficiency requirements provide a first time opportunity to address energy inefficient properties directly by identifying these properties and dealing with them. New style ECO will be no different unless radical changes take place. Hitherto, schemes such as the Warm Front Scheme and ECO have been self selecting as the beneficiaries of these schemes have had to come forward to claim them. When it comes to addressing fuel poverty the fuel poor may not even recognise the situation that they are in or, if they do, be very reluctant to identify themselves as “poor”. EPCs (assuming that they are correct) allow us to identify the least energy efficient properties. In many cases they will be occupied by those in fuel poverty or at least on low incomes, at risk of fuel poverty if their circumstances change. Even though the current occupiers are not in fuel poverty the next one may well be.

However, our concern is that due to these various changes in Government policy there is every likelihood that the PRS minimum energy efficiency requirements will impose higher overall living costs on those in fuel poverty and the less well off or lead to them losing their homes. What is going to happen is that those who would otherwise benefit from energy efficiency improvements will end up paying the cost themselves though higher rents which will, at best cancel out the savings in their utility bills or, at worst,

mean that they end up paying even higher living costs overall driving them further into poverty. Worst still if they have to move out. These are individuals who are on low wages or in receipt of State Benefits. As a result this very real opportunity which has been presented of homing in on the worst properties in terms of energy efficiency in the PRS will be squandered. This has to be avoided at all costs.

To reduce the incidence of fuel poverty in the PRS and to help improve the lives of those living in the least energy efficient properties in the sector, it is essential that the policy objectives must be to secure real reductions in likely costs, not just when it comes to utility bills but also in their living expenses overall. In other words, not only must the energy efficiency of their properties be improved but so must their net household incomes, after taking into account their rental costs and utility costs combined. A policy which drives up rents will have the reverse effect as well as the consequences if landlords sell up and evict tenants to do so. It is simply pointless making tenants pay more in total due to higher rents charged to meet the cost of the improvements which will result if there is no financial assistance available for the landlords of the affected properties in the PRS. It is well recognised that if energy efficiency is improved then many of those living in the properties which benefit will want to claw back the savings achieved by having warmer homes. This is particularly the case where new heating systems are installed. This has beneficial outcomes for residents in terms of warmer homes, and improvements in health and general wellbeing. It is vital that they should be able to do this in order to make their homes warmer to live in to avoid the adverse consequences of living in a cold environment.

Withdrawal of funding

Except for the new ECO scheme (the details of which are now being consulted upon by Government) no financial assistance will be available for PRS landlords facing compulsion from 2018. All forms of financial assistance including tax reliefs which were available at the time the legislation introducing compulsion in the PRS was passed have now been withdrawn, with no signs of them being replaced. The Consultation Paper on ECO makes bleak reading for PRS landlords and tenants. The PRS is not even mentioned. We therefore have the resulting situation that minimum energy efficiency

standards in the PRS are designed to fail. Unless ECO is available the only form of funding is self funding from the PRS itself which means that, as with any other business, the costs of carrying out the works required to meet the minimum standards will be passed onto tenants through higher rents. Properties could even be left empty.

Compulsion is being introduced at a time when the PRS landlords are being drained of cash flow due to higher tax bills. These will result from the restrictions on mortgage interest tax relief, higher stamp duty and the loss of wear and tear allowances for furnished accommodation.

The Government has withdrawn its support for Green Deal Finance but, in any event, this scheme was a failure. LESA which at least allowed landlords to set off up to £1,500 of the costs has been abolished, despite strong protests by this Association and others. Landlords will only be able to recoup the costs through tax relief if, and when, they dispose of the property through offsetting the cost against their capital gains tax. However, the offset only relates to the historic costs as the costs cannot be index linked to allow for intervening inflation between the date the work was carried out and the date of disposal. If, instead of disposing of the property, a landlord dies, then the value of the property is uplifted to probate value so no relief at all is then given.

Currently, ECO is available but there has been a low level of penetration in the PRS. The new ECO pot of £640 million is hopelessly inadequate. Some providers have forward spent their ECO funding. The reset of ECO which took place in 2013 has meant that significantly less funding has been available anyway. Likewise, under the new ECO scheme which will be introduced from 2017/18 onwards, funding is much reduced.

Experience has shown, in any case, that ECO providers much prefer to deal with owner/occupiers and social housing landlords. With PRS properties pepper-potted around they are harder to locate and ECO providers then have to deal with a more complex landlord/tenant/provider relationship than when dealing with owner/occupiers or social landlords. The proposal to allow social landlords with E, F and G band properties to automatically access ECO is a green light for suppliers to direct ECO funding into the social sector. This is despite the fact that the social sector has already

received massive financial support, e.g. through the Decent Homes Programme to help it improve its energy efficiency of properties in that sector. Their properties are also newer. In reality any ECO which has been spent in the PRS has largely been confined to the provision of new boilers by British Gas and this has been confirmed by the National Audit Office (NAO) investigation into ECO and Green Deal. Now the proposed new ECO Scheme will restrict ECO funding for new boilers. This is despite the fact that this has been a well recognised way of improving energy efficiency so as to help those in fuel poverty.

Without outside financial assistance to help tenants and residents in energy inefficient properties in the PRS, fuel poverty in the sector will be perpetuated, despite the Government's stated intent to eradicate its root causes.

The need for specific ECO assistance for the PRS

As things stand, implementation of minimum energy efficiency requirements in the PRS will now be highly regressive and damaging to tenants. The key to avoiding this is to ensure that when ECO is re-designed from 2017/18 onwards a significant element of ECO funding is dedicated to supporting measures installed in F and G rated properties in the PRS. If this can be done for social landlords why not for the PRS as well? This needs to go beyond just those in fuel poverty. The Government may argue that this is contrary to its intended focus on reducing fuel poverty. Not so; the PRS houses a large number of individuals in fuel poverty already or on low incomes who are clearly at risk from being dragged into fuel poverty. Importantly, the increased rental costs which could otherwise fall on tenants can only be avoided in this way and reduce the risks of landlords who simply cannot afford to pay having to sell up. Otherwise, unless where rents can be increased, those on low incomes will be subject to increased overall expenditure on living expenses as we have already pointed out. Even if the current residents are not in fuel poverty, having regard to the location and type of properties which are involved, there is every likelihood that the next occupant could be in fuel poverty. After all, fuel poverty is highly personalised, dependent on family circumstances and income, as well as the risk of rising energy prices, which result in individuals falling into the trap of fuel poverty.

Without a significant injection of outside funding, the reality is that this ambitious scheme to upgrade the most difficult to treat properties, F and G rated properties, in the PRS, comprising mainly old stock, will flounder. The current track record of local authority enforcement relating to housing conditions generally does not augur well. Will local authorities have the will or resources to enforce the implementation of the scheme? Is it not counter productive to levy civil penalties, a fine, for non compliance when the money would be far better spent on improving the properties themselves. A significant number of tenants are not likely to want the hassle and trouble of having the work done and they may well be keen to side with landlords who are equally resistant to the idea. Simply relying on the stick of enforcement will not work. There needs to be an effective carrot to bring about the transformational change that is envisaged. This is particularly so in the longer term when the minimum requirements are ratcheted up, with the Government's ambition of a C rating for properties for those in fuel poverty by 2030.

Dedicated ECO funding for PRS is needed.

The figures

If we assume that as estimated by the Government there are 330000 F and G properties in the PRS and that around 50% can be improved at an average cost of £1,800 per property (according to Government calculations), then we are looking at total expenditure of up to £300million. This would be spent over a period of approximately 5 years averaging up to £60million per annum taking into account the need to upgrade properties which are newly tenanted and those with sitting tenants. This is as against a total projected spend for the new style ECO of £640million over its lifetime, i.e. around £130 million per annum.

Government plans for compulsion in the PRS

Prior to the announcement of the end of the Green Deal the Government's own impact assessment was that only 44% of domestic F and G rated private rented properties

would be improved to an EPC rating of E. We understand that Ministers are now more ambitious indicating that somewhere between 50% and 60% of properties should be improved, but this brings with it its own challenges and threats to the PRS due to the need to spend money on more difficult to deal with properties. Some already consider the 44% target to have been unduly optimistic. Landlords do not have unlimited access to funds and are often individuals who own a single property. It is no good, however, saying that just because landlords are in business then can afford it. They cannot, as our Members' Survey demonstrates. We already have a situation where historically 1/5th of Landlords have not made a profit from their lettings. Furthermore, landlords face a freeze on benefit rates where tenants are in receipt of State benefits. Landlords face other significant challenges which we have identified. Regulation alone, directing the carrying out of this work, will not achieve a meaningful result and, worse still, will positively harm residents if policies do not change. What are we advocating. ?

Our proposals

The Government are now consulting on the new style ECO system.

This will have funding worth £640million per year. The Government's intention is that it will lead to an upgrade of energy efficiency for over 200,000 homes per year, saving those homes up to £300 off their annual utility bills. This number has to be compared with the number of F and G properties in the PRS which is up to 330,000 properties whereas the 200,000 figure is across all tenures. The funding of supplier obligation schemes, such as ECO is however generally regressive because the costs of delivering the scheme are passed onto all consumers, including those on low incomes and in fuel poverty, but only some consumers see the benefits. The warm home discount scheme means that those who are eligible can claim up to £140 per annum rebate off their electricity bills but with average household bills of the order of £1,300 to £1,400 per annum this is only around 10% of their overall costs so it makes little difference in reality however welcome it may be.

This regressive feature will be added to the highly regressive situation due to increased rents which will result in many instances from current Government policy for the

implementation of minimum energy efficiency standards in the PRS, unless this is radically changed. It is also important that funds from ECO do reach low income households and those in or at risk of fuel poverty to mitigate the regressive nature of ECO. Equally it is vital that availability of ECO is not just confined to those in fuel poverty but, importantly, it has to go wider to support those who are at risk of fuel poverty due to low incomes. ECO is focused by suppliers to achieve the maximum amount of work at the least cost, as one would expect. Availability is therefore left in the hands of the suppliers and there is no planned programme to make sure that those who need assistance the most receive it. Better planning is needed in our view.

To do it properly greater targeting of ECO at fuel poor/low income households would increase the cost of the scheme, especially around locating those who are to benefit. This can be addressed because the Government are proposing to relax data sharing restriction in relation to data held by public bodies e.g. the Department for Work and Pensions. They should be relaxed further to assist with the distribution of ECO funding. This has been suggested by others as well as ourselves but the Government's response to the data sharing consultation is unclear about this proposal. Subject to appropriate safeguards, information held by public bodies should be shared to help identify those eligible for ECO support so that their landlords can be assisted financially to upgrade their properties,

Up to now ECO has been effective in delivering cheaper measures, especially new boiler installations, as providers aim to deliver at the least cost, using the easiest and cheapest improvements. It is therefore worrying that the Government are now proposing to restrict help for new boilers.

It is essential that the PRS receives its fair share of ECO funding which has not been the case up to now. Further focusing ECO on the fuel poor effectively would also mean that more expensive measures can often be more appropriate, e.g. solid wall insulation but this is unlikely to occur as matters stand.

Under the existing ECO scheme, it has frequently been the case that those taking up the scheme are made to pay a contribution towards the cost of the works. If landlords are

compelled to pay themselves for improvements, without financial assistance, then we have a new scenario. Under this in the PRS the less well off, instead of having to pay a capital contribution, may have to pay this contribution which will be rentalised over time even though due to their low incomes it will be a real struggle for them to do so. They are therefore being treated in the same way as the “able to pay” group. Landlords may refuse to renew tenancies in the hope of finding a tenant who can pay a higher rent. The likelihood is that extra rental costs will be imposed to recoup the cost to the landlord over a shorter period than the pay back time for the measures actually installed to meet the minimum E requirement. Likewise, setting too high a cap for the exemption (currently proposed at £5,000) will also mean that the extra costs landlords incur to deal with the more difficult to treat properties will also be clawed back rapidly, wherever possible.

The £640million per year figure allocated for new style ECO is a reduction in annual expenditure over £1.1billion compared with ECO expenditure prior to 2013. The Committee on Climate Change consider that £1.2billion per annum is required if the Government is to meet its target for eradicating fuel poverty in England.

At the same time, when ECO is redesigned it is vital that more emphasis is again placed on solid wall insulation. The proposed new scheme will retain some ECO funding for treating solid walls but this amount is wholly inadequate. This issue will not go away. The number of properties suitable for loft insulation and cavity wall insulation are gradually being exhausted. Government policy in reality is to kick this issue of solid wall insulation into the long grass. The problem is that the Government wants to install low cost measures as much as possible in order to spread the benefits of ECO across the largest number of people. In the longer term this position is untenable.

ECO should primarily be focused on the less well off, not just those in fuel poverty. Nevertheless, there are also those who live in F and G rated properties in the PRS who are able to contribute in whole or in part. Some form of means testing is therefore needed to identify those who are able to pay. We agree with the Government’s proposal to utilise the Affordable Warmth Group as the group implementing these objectives but with an important proviso. No means testing should be allowed for those

living in privately rented properties in areas of multiple deprivation. After all, allowing social landlords of E, F and G properties to automatically access ECO is also wrong especially as there is no means testing of their tenants of these properties. This is somewhat surprising as the Government have introduced legislation to allow social landlords to charge higher rents to the better off who live in social rented housing. If it is now a proposal for social housing equally it should be applied to E, F and G rated PRS properties located in areas of multiple deprivation.

Clearly the figures do not allow for ECO assistance across the board for all properties in the PRS affected by the Minimum Energy Efficiency requirements. However, a substantial number of residents in the PRS in these properties do need help. At the same time financial assistance, irrespective of means, is required to facilitate costly measures such as solid wall insulation where this is needed. We now need to look at some related issues around ECO funding.

Measures based approach

There are strong arguments for moving away from a measures based approach, i.e. installing particular items and more to outcomes based approach based on combining a number of measures. This is also linked to the whole house approach. As requirements become more stringent, you can either install individual new measures to meet those targets each time a new standard is introduced or, recognising the longer term trajectory, adopt a whole house approach with a suite of appropriate measures to bring the property up to the eventual requirement which will be imposed doing this all at one go and earlier than otherwise would happen.

Solid Wall Insulation

There is a need target solid wall insulation at a higher proportion of households who live in solid wall properties in the PRS who are in fuel poverty.

ECO was recast in 2013 to reduce the available assistance for solid wall insulation. It is simply not worth doing the work without public financial support because of the high

cost and the long pay back period. Nevertheless, in the long term it is a very effective way of reducing energy bills and avoiding fuel poverty. New style ECO should make sufficient funding available for this work as a long term investment in the housing stock. Insufficient funding is being devoted to solid wall insulation under current Government policy. After all it is estimated that at least 80% of the entire existing housing stock will still be around in 2050. In reality, this is likely to be an under estimate. As more and more external solid wall insulation is installed it should become cheaper. After all, in the long term, there is no alternative but to focus attention on the hard to treat properties with solid walls, as easier pickings are dealt with.

Houses in multiple occupation (HMOs)

There is no requirement for an EPC to be obtained on an individual let of a room in an HMO. Indeed, at the moment, it is not technically feasible to produce such an EPC based on the current RdSAP methodology. Therefore, compliance with minimum requirements would only be required where an EPC has been obtained because the property was to be sold or for some other reason, i.e. it relates to the whole of the property. Subject an appropriate methodology being devised, the RLA has already agreed that it would be appropriate to apply minimum energy efficiency requirements to individual lets in HMO properties, which often house the least well off.

A PRS Partnership

The Association believes that the beneficial experiences gained from the now discontinued Warm Front Scheme should be repeated. The measures to reduce F and G rated properties in the sector are the first stage of the process. The Government has announced its intention to bring properties lived in by those in fuel poverty up to a C rated standard by the end of the next decade which confirms that a trajectory is now starting. Therefore, longer term planning is needed.

Unlike owner/occupation or social housing there are particular features of the PRS which need to be taken into account. We have already referred to the split incentive for example. Also the tripartite relationship of landlord, tenant and provider means that

specific needs of the sector need to be addressed by providers who have experience of the sector. Also to save costs overall there is a need to identify affected properties easily. This has been one of the issues that has knocked back earlier schemes. The Warm Front Scheme succeeded because of its scale which meant that costs of installing measures is cheaper overall than the normal market charged. This could be achieved because properties were identified and providers could then bid online to carry out the work. This has spared providers the costs of identifying properties and marketing. Importantly, Warm Front was a grant funded scheme, although contributions were required, based on means.

According to an analysis carried out by Benjamin Sobacool “Fuel poverty, affordability, and energy justice in England: Policy insights from the Warm Front Programme” based on the Government statistics, this was a very successful programme resulting in 2.36 million homes receiving assistance, 2.85 million measures being installed and a total expenditure of £3.2billion. We believe that lessons can be learned from this scheme and that there is an urgent need to replicate elements of this scheme in a new partnership scheme to assist improvements in the PRS over a 12-year period over the period from 2018 up to 2030. The Warm Front had a positive cost curve, producing benefits that far exceeded expenses. The direct benefits were improved energy efficiency which far exceeded the costs and generated significant savings, ignoring altogether indirect benefits in the calculation, which clearly will have increased the overall benefits resulting from the Scheme.

Landlords need to be able to link into a scheme which has experience of the sector and gives economies of scale together with reliable workmanship.

Is a supplier obligation the best way?

Like the DECC Select Committee we question whether a supplier obligation is the best way of tackling our energy efficient homes in the UK. Naturally suppliers work to get the most at the least cost to meet their targets. Those less able to pay, the fuel poor, have to contribute their share. It would be better for the cost to fall on general taxation in our view.

Scope of ECO

The key problem with ECO, due to lack of funding, is its availability. Even if, as the Government plans, eligibility criteria for ECO are relaxed, few, relatively speaking, can benefit because of the restricted funding which is available. It is no use widening the scope of ECO in reality because only a limited number of do in fact benefit for ECO funding. The PRS has simply not had its fair share of this funding to date. Suppliers are reluctant to engage with PRS landlords so even fewer tenants are able to benefit from having ECO funded measures installed. With restrictions on new boiler installations proposed even fewer PRS tenants will benefit. None of this is looking good for PRS tenants in particular and there is an urgent need for the Government to rethink its approach.

Need to change primary legislation

When the Energy Act 2011 was passed under the previous Coalition Government, assurances were given that compulsion would be implemented on the footing of “no upfront cost to the landlord”.

This principle is embodied in the definition of “relevant energy efficiency improvements” in the Act. As matters stand, landlords can only be required to carry out such improvements as can be wholly paid for under a Green Deal Plan (i.e. which are within the Golden Rule) or which are provided free of charge pursuant to ECO (or a combination of both). Additionally, it is provided that they can be “financed by such other description of financial arrangements as ... regulations provide”. There is absolutely nothing here about a landlord paying for this work himself/herself. If you pay for something yourself this is not a “financial arrangement” in the context of this definition. “Financial arrangement” means an arrangement with a third party funder or grant provider. You do not make an arrangement with yourself to pay for something. The intention of this provision was to cover new schemes which might evolve or the availability of external finance such as local authority grants. We disagree that this

provision would enable the Secretary of State to make regulations abandoning the no up front cost to the landlord principle.

This means that primary legislation is needed for this change but even then and passing such legislation would be a breach of faith, as the original legislation was passed in the first place on the footing that there would be no upfront cost to the landlord. This is vital also to protect tenant's interests. When the legislation passed through Parliament Ministers gave assurances that there would be no upfront costs to landlords.

Tax relief

We call on the Government to reverse its policy around tax relief for landlords who effect energy efficiency improvements. At the moment as this work is, in most cases, treated as an improvement it can only be claimed against capital gains tax if and when the property is sold. Even then only the historic cost can be set off. Instead relief should be given against income tax (or corporation tax if the landlord is a company). For work recommended on an EPC this should allowed in full. For larger schemes, capital allowances should be made available spread over 4 years. Publicly funded work e.g. paid for under ECO should, of course, not be eligible for tax relief.

Conclusion

Due to the changes which have taken place, since the original legislation was enacted to require minimum energy efficiency standards in privately rented residential accommodation, significant changes have occurred already and further charges are now proposed, which totally undermine the likely success of the opportunity which was originally created, to improve the least energy efficient rented domestic accommodation. Regrettably, the Government are setting a course of action which is likely to throw much of the cost onto those whom the scheme is intended to benefit, namely the tenants and residents of these properties especially those who are in fuel poverty. They could find themselves worse off in financial terms, as they are already in fuel poverty or at risk of fuel poverty, or they are in receipt of low incomes. Often they will be benefit claimants, whether in work or out of work benefits. Landlords will

inevitably treat the costs of effecting the improvements as a business expense and as with all business expenses the costs will be passed onto the consumer somehow, those self same tenants and residents who are least able to afford the inevitably resulting increases in rents where this is possible. Otherwise, they may find the risk of the work not being done or even worse eviction to allow the landlord to sell because he/she cannot afford the cost of the work. Furthermore, landlords face rising costs across the board pushing up rents. The PRS already is subject to much criticism due to rising rents but now we have a situation where the Government itself is driving these increased rents.

Worryingly, this is only the start of the process because clearly the Government is set on a trajectory of increasing the minimum energy efficiency standard for the sector. The danger is that the Government will be able to claim that the number of F and G rated properties has been reduced but at what cost to those live in these properties? In this situation, joined up thinking is essential but regrettably, currently, this appears to be missing in the policy decisions which are now being made, driven by fiscal imperatives. This is false economy because as the Warm Front Scheme demonstrates significant savings can be achieved by improving energy efficiency in the homes of the less well off. For instance, at a time when the National Health Service is under great pressure it makes a great deal of sense to implement measures which make it less likely that vulnerable people will suffer ill health necessitating medical treatment. There is an opportunity for the Government to recast the ECO scheme to provide the necessary assistance and at the same time for the sector to join with the Government and providers to put into place the necessary mechanisms which will assist in the implementation of the scheme and help moderate its costs; for the economies of scale to operate. However, the ECO proposals do not bode well for the PRS with no consideration at all of the impact of consultation being introduced in the PRS but permitting automatic access to ECO for social landlords of E, F and G rated properties. A missed opportunity to help those who really need it?