

Private rented sector energy efficiency standards

Citizens Advice response to BEIS
consultation, March 2018



Contents

About Citizens Advice	2
Summary of our views	3
Introduction	
High prices and low quality for tenants	4
Cold homes in the private rented sector	4
Responses to consultation questions	7

About Citizens Advice

Citizens Advice provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. Since 1 April 2014, the Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain. The service aims:

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 300 independent advice centres that provide free, impartial advice from more than 2,900 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups. There are 23,000 trained, trusted and knowledgeable volunteers across England and Wales. In 2016/17, Citizens Advice service advised 2.7 million people, with 43 million visits to our website. Since April 2012 we have also operated the Citizens Advice Consumer Service, formerly run as Consumer Direct by the Office for Fair Trading (OFT). This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

Summary

Citizens Advice welcomes the government's proposal to make the minimum energy efficiency standards for rented homes more effective. We also agree that Green Deal and other relevant funding sources are likely to do little to improve energy efficiency in the private rented sector. It is the right approach to require landlords of substandard properties to contribute to the cost of energy efficiency measures to improve these homes.

However, the regulation will be more effective if the cost cap is set at £5,000 rather than £2,500. The regulation is designed to help renters facing high fuel bills and contribute to meeting fuel poverty targets¹. A £5,000 cost cap is around twice as effective in achieving these aims as the £2,500 cost cap². Further, the impact assessment underestimates the relative cost-benefit of the £5,000 cost cap, notably by not including the health impacts.

Citizens Advice recognises the need to balance the impact of the regulation with any adverse impact on the housing market. Last year we published research into the impact of introducing a minimum standard³. This supports the government's argument that there is likely little impact on rental price or the supply of housing.

If the cap is set at £2,500 there will be significant gap in the funding required to meet the government's fuel poverty targets. There is no mention of these extra costs in the proposals. The government has set out an aim to further increase standards in the private rented sector, up to Band C by 2030. It is unclear how this can be achieved with a £2,500 cost cap that leaves a large proportion of tenants in cold F and G rated homes.

This regulation provides an opportunity to significantly boost to the living standards of tenants in the coldest homes. It will bring a significant benefit to tenants, by reducing their energy costs, and because the impacts on the rental market will be limited. If the cost cap is set at £2,500 this opportunity will be missed.

¹ Committee on Fuel Poverty [Committee on Fuel Poverty report on initial positions](#), September 2016

² Based on figures in BEIS's impact assessment

³ Frontier Economics - report for Citizens advice, [The Impact of Minimum Energy Efficiency Standards in the Private Rented Sector](#), October 2017

Introduction

High prices and low quality for tenants

The number of people renting privately has more than doubled since 2000, and continues to grow. The increasing unaffordability of home ownership means more and more people are renting for the long-term⁴. The sector increasingly includes families with children -they made up 36% of renting households in 2015-16, up from 30% in 2005-06⁵.

As demand increases, so do rents. This squeezes the disposable income of struggling households. According to government analysis, the average couple renting privately spends about half their salary on rent⁶.

Despite high costs, the condition of rented homes is often poor. According to the English Housing Survey, in 2015-16, nearly a third of PRS properties were not classed as a decent home⁷. Over a sixth contained a serious health and safety hazard⁸. From renting out these unsafe properties alone, landlords bring in around £4.2 billion a year⁹.

It is hard for tenants to get their problems solved. 40% of renters we surveyed avoided asking for repairs because they worried about how their landlord would react¹⁰.

Cold homes in the private rented sector

While the landlord is responsible for how energy efficient the property is, the tenant typically pays the energy bill. The less efficient a property is, the higher the energy bills will be.

There is little evidence that tenants consider energy performance ratings when deciding where to rent, so there is little impetus for landlords to improve energy performance¹¹.

⁴ Citizens Advice, [A state of disrepair: Why renters deserve a better deal](#), February 2017; [A nation of renters](#), May 2015

⁵ DCLG, [English Housing Survey 2015-16](#), February 2017. .

⁶ Citizens Advice, [A state of disrepair: Why renters deserve a better deal](#), February 2017.

⁷ 28%. DCLG, [English Housing Survey 2015-16](#), February 2017.

⁸ Known as a Category 1 Hazard in the Housing Health and Safety Standard Rating System (HHSRS) used by local councils. See Shelter, [Health and safety standards for rented homes \(HHSRS\)](#), January 2016

⁹ 17% of the total. Citizens Advice, [Paying a high price for a faulty product?](#), December 2016.

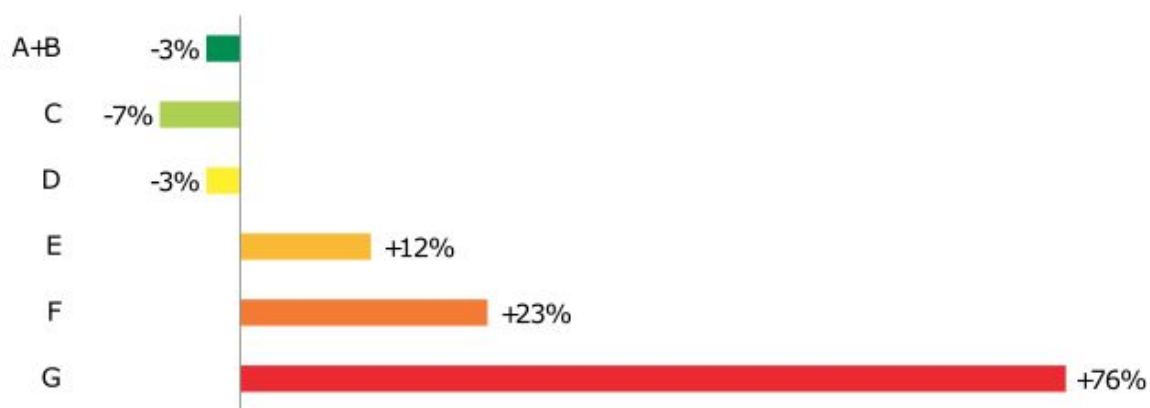
¹⁰ Citizens Advice, [A state of disrepair: Why renters deserve a better deal](#), February 2017.

¹¹ Frontier Economics - report for Citizens advice, [The Impact of Minimum Energy Efficiency Standards in the Private Rented Sector](#), October 2017.

The story is different in social housing, which benefited from minimum standards and investment¹². Energy performance in that sector has gradually increased and social tenants tend to benefit from living in homes with better energy ratings than owner occupiers, as well as private tenants.

The result is that, compared to those who own their home or rent in social housing, the private rented sector has relatively more properties with the lowest energy efficiency ratings and fewer with higher energy efficiency ratings.

Figure 1: The proportion of PRS properties in each energy efficiency band, compared to the general population.



Source: English Housing Survey 2015-16¹³

In turn, private renters are more likely to be in fuel poverty and unable to heat their home adequately¹⁴. Renters in G rated properties have to spend around twice as much as the average household to reach the same level of warmth¹⁵. Households in fuel poverty end up either paying so much for their energy bills they are pushed into poverty, or living in a cold home.

21% of private rented households in England are living in fuel poverty, compared to 11% of all households. They also tend to have a higher 'fuel poverty gap'¹⁶: - . for private tenants in fuel poverty the average gap is £410¹⁷.

¹² Notably the Decent Homes Standard. Department of Communities and Local Government, [Decent Home: Definition and guidance for implementation](#), June 2006

¹³ DCLG, [English Housing Survey 2015 to 2016: private rented sector](#), July 2017

¹⁴ In England, Fuel poverty is measured using the Low Income High Costs indicator, which considers a household to be fuel poor if: they have required fuel costs that are above average (the national median level); and were they to spend that amount, they would be left with a residual income below the official poverty line. See BEIS, [Annual Fuel Poverty Statistics Report 2017 \(2015 data\)](#), June 2017

¹⁵ An estimated £2,600 annually, compared to £1,210. Citizens Advice, [Private renters in poor quality homes face £1,000 higher costs to heat their homes](#) (press release), October 2016

¹⁶ The extra annual income required to adequately heat their home

¹⁷ BEIS, [Annual Fuel Poverty Statistics Report 2017 \(2015 data\)](#), June 2017.

Properties with the very lowest energy efficiency ratings (F and G), are home to around 750,000 tenants:¹⁸.

- They are twice as likely to experience damp and mould:
- Half a million have no central heating
- Nearly two thirds have no wall insulation
- Less than half have modern condensing boilers, which have been mandatory for any new or replacement installations since 2005.

Many F and G-rated homes are classed as a serious health and safety hazard, because of the risk of dangerously cold temperatures. Every year these homes bring in around £2.9 billion in rent for landlords¹⁹.

The Committee on Fuel Poverty²⁰ has been clear that because of the lack of other incentives to improve these homes, regulation of the private rented sector is essential to delivering the fuel poverty target for England. The government's target is to make as many homes as is reasonably practicable reach a minimum by Band C, by 2030, with interim milestones of Band E by 2020 and Band D by 2025.

Improving the energy efficiency of rental properties would give tenants a financial boost, reducing energy bills which are often a household's biggest utility bill. It would also make tenants healthier and happier. There is a well-established link between cold homes and physical and mental health²¹.

The poor efficiency of these properties is not just a problem for those paying the energy bills. The Committee on Climate Change has shown that a 'comprehensive policy package to improve efficiency of existing buildings' is required to meet our climate targets²². Minimum standards in the private rented sector are a key component of this²³, and any shortfall in this area is likely to be picked up by more expensive carbon policies elsewhere.

¹⁸ Around 300,000 properties. Citizens Advice, [Private renters in poor quality homes face £1,000 higher costs to heat their homes](#) (press release), October 2016.

¹⁹ Citizens Advice calculates the average rent in band F and G properties to be 2.5% lower than the average in the private rented sector, giving an estimate of £174 per week. Citizens Advice, [Private renters in poor quality homes face £1,000 higher costs to heat their homes](#) (press release), October 2016

²⁰ Committee on Fuel Poverty [Committee on Fuel Poverty report on initial positions](#), September 2016

²¹ See for example: Building Research Establishment, [The cost of poor housing to the NHS](#), 2011 and Age UK, [Reducing fuel poverty – a scourge for older people](#), 2014

²² Committee on Climate Change, [2017 Report to Parliament – Meeting Carbon Budgets: Closing the policy gap](#), June 2017,

²³ Committee on Climate Change, [Meeting Carbon Budgets - Progress in reducing the UK's emissions 2015 Report to Parliament](#) Committee on Climate Change, June 2015

Response to consultation questions

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.

Agree.

Citizens Advice welcomes the move to require landlords to fund energy efficiency improvements where their property does not meet the minimum standard, subject to a maximum cost-cap. This will address the fundamental shortcoming of the existing regulation.

A more effective regulation will bring significant benefits to tenants, as discussed in our response to Question 2. In the introduction to this response, we set out the issue of cold homes in the private rented sector which this regulation is intended to tackle.

The 2015 minimum standard regulation relies on specific and contingent funding sources, and provided no guarantee that any action would be taken. In because of how these schemes work they would require few landlords to take action. It would also have been extremely difficult for local authorities to enforce.

We support the Committee on Fuel Poverty's view that a requirement on landlords to pay for measures is the best way to make the regulation effective. There could be an exemption for properties where the costs are particularly high.²⁴

The two main funding sources that were expected to support the existing minimum standard are the Green Deal and the Energy Company Obligation (ECO). Neither was designed in a way that would effectively support the minimum standards, and neither has worked in practice as envisioned when the regulation was created.

Under ECO, energy companies have to meet targets for energy efficiency installations. These are ultimately paid for by consumers through their energy

²⁴ Committee on Fuel Poverty [Committee on Fuel Poverty report on initial positions](#), September 2016

bills. Spending priorities are determined by how each energy company decides to meet their targets. The scheme does not guarantee any specific support for rental properties. Since the 2015 regulations were designed the scheme was cut and its priorities modified²⁵.

The Green Deal provides loans for energy efficiency measures, which are paid for through a charge on energy bills. In rental properties a Green Deal loan would generally be paid for by tenants. Uptake for the Green Deal fell well below expectations. This was primarily due to low consumer appetite for the scheme. As a result the scheme was mothballed. Last year, the Green Deal finance company was sold to a private company.

Even if Green Deal loans were available, evidence suggests demand will be insufficient to lead to significant uptake of measures, particularly in the private rented sector²⁶. Demand for the scheme is only likely to increase significantly if it is supported by other action to increase consumer demand, for example regulation²⁷. However, in the private rented sector, regulation falls on the landlord, while it is generally the tenant who would take out the Green Deal. Also, tenants are likely to be less motivated to pay for a Green Deal than owner-occupiers, because some of the benefits of the energy efficiency measures are captured by the landlord. Growing concerns about rental conditions make the idea of tenants paying for improvements to the landlord's property increasingly unattractive. The Green Deal is also unsuitable for households in fuel poverty or under financial stress.

Even if these schemes could effectively support the regulation we do not think they are an appropriate way of funding the minimum standards.

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

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

Disagree.

We consider the cost cap of £2,500 far too low. We recommend the government set the cost cap at £5,000. The government's impact assessment shows that the £5,000 best achieves the objectives of the policy.

The regulations stated objectives are:

²⁵ See Citizens Advice, [Response to the Help to Heat consultation](#), August 2016

²⁶ Citizens Advice, 2018, [Response to the Call for Evidence on Building a Market for Energy Efficiency](#)

²⁷ Citizens Advice, 2017, [Response to the Call for Evidence on the Green Deal Framework](#)

(To improve) a meaningful proportion of the estimated 280,000 sub-standard properties across England and Wales... to ensure improved energy efficiency standards and lower bills for the residents of those properties, including those in fuel poverty, and to deliver on the wider objectives set for the minimum standard regulations.

(Sub-standard refers to all domestic private rented homes below Band E).

Those wider objectives include:

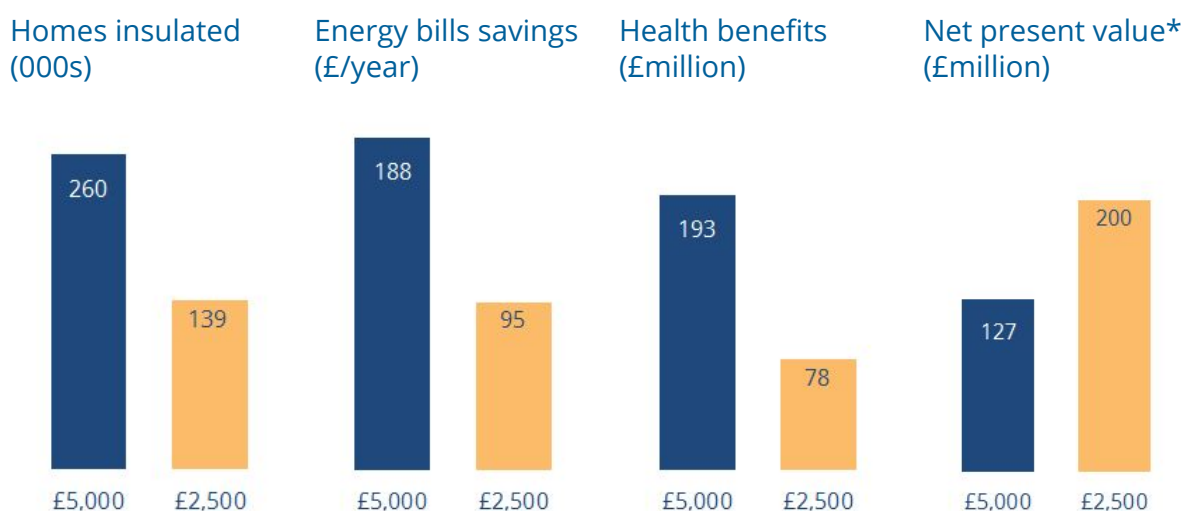
fewer greenhouse gas emissions, potential economic growth and employment, lower energy bills for households – including those deepest in fuel poverty, and lower overall energy demand. The policy will also lead to greater energy security, improved air quality, and improved health outcomes as a result of warmer homes.

The government also expresses a concern that energy efficiency measures installed are cost-effective and that costs required of landlords are “reasonable” or “not disproportionately high”.

The option that best achieves these objectives is the £5,000 cost cap. For each objective looked at by the impact assessment, a £5000 cost cap outperforms a £2,500 cost cap²⁸. The higher cost cap delivers:

- around twice the energy bill savings
- nearly twice number of homes insulated
- over twice the health benefits (and bigger contribution to reducing the number of excess winter deaths).

Figure 2: The relative benefits of the £5,000 and £2,500 cost caps



* Net present value does not include health benefits. *Source: BEIS impact assessment*

²⁸ Potential economic growth and employment are not covered in the impact assessment, however we would expect this to also be higher under the £5,000 cost cap, given the relationship between cost-effective energy efficiency measures and growth.

The Committee on Fuel Poverty describes effective regulation as one of the three 'early, highest priorities' for government in meeting the fuel poverty strategy 2020 milestone²⁹. It views the £5,000 cost cap option as a key part of achieving this milestone, which is expected to provide around £0.3 billion of the £0.9 billion funding required for the 2020 milestone.

Cutting the cost cap to £2,500 would lead to a shortfall of £0.15 billion in funding for fuel poverty between now and 2020³⁰. The Committee has suggested that this will require the government to "urgently identify or propose alternative financing tools"³¹.

The £5,000 cost cap is the best option for achieving the regulation's objectives. It is also cost-effective, both in terms of the energy efficiency measures installed, and the policy overall.

According to the impact assessment, all the policy options modelled have a significant positive Net Present Value (NPV). In other words, their value outweighs their cost³². However, the NPV should not be used in isolation to select the preferred policy option, as the government notes in the consultation document.

Energy efficiency measures are generally understood to be cost-effective where lifetime bills savings are greater than the cost of measures. We think it is likely that most measures installed under any of the policy options will be cost-effective according to this definition³³.

The government has not defined what it considers to be 'unreasonable' or 'disproportionately high' costs for a landlord, but uses these costs as one of the key justifications for the preferred policy option³⁴.

The government considers the proposals will have little impact on rental price or housing supply, and our research also supports this view³⁵. Without another definition of what the government considers unreasonable costs, it is difficult to understand the reason for the proposed £2500 cost cap. If it is considering the

²⁹ Committee on Fuel Poverty, [Committee on Fuel Poverty annual report 2017](#), October 2017

³⁰ Add footnote

³¹ Committee on Fuel Poverty, [Committee on Fuel Poverty annual report 2017](#), October 2017

³² As outlined in question 10a, we also expect the real NPV to be higher than this, particularly for the higher cost cap options.

³³ This is not modelled directly in the consultation. The 2014 consultation predicted over 73% of sub-standard properties can be improved to Band E within the Golden Rule (The Green Deal's Golden Rule is a proxy for cost-effectiveness). Given

- under all the policy options considered, the level of improvements will be below 73%
- and there is generally a positive correlation between price and cost effectiveness of home energy efficiency measures

This implies measures are likely to meet the Golden Rule.

³⁴ Impact Assessment page 17

³⁵ Frontier Economics - report for Citizens advice, [The Impact of Minimum Energy Efficiency Standards in the Private Rented Sector](#), October 2017. This is discussed under question 10b

narrow cost-benefits to existing landlords, then this would have required consideration of the benefits to landlords of the regulation, like increased asset price. However, if some landlords currently in the market are unwilling to accept the costs of meeting minimum standards, evidence anticipates other landlords will be willing to enter the market who are³⁶.

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

Disagree

Quotes for works can be expected to include VAT so there would be little administrative impact of including or excluding VAT from the cost cap. If the cost cap is set at an appropriate level then it is (marginally) more straightforward to set the cap inclusive of VAT. However, if the government proceeds with a cost cap below £5,000 we recommend excluding VAT from the cost cap, as this will increase the funding to a level better in line with the objectives of the regulation.

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.

Agree.

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

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

Disagree.

Funding under Green Deal, ECO or equivalent should not be included towards the cost cap threshold. It is inconsistent with the principle of the cost-cap, which is to set a certain threshold for a maximum reasonable landlord contribution.

This proposal will:

- be inequitable between landlords

³⁶ See question 10b below

- reduce the effectiveness of the regulation and increase the fuel poverty funding gap
- add to administrative complexity

The proposal is also based on the assumption that ECO or equivalent funding can be used to pay for measures that would otherwise be paid for by the landlord. This is discussed towards the end of our response to this question.

The consultation gives no rationale for a cost cap which is inclusive of other funding to improve a property.

A cost cap would not require landlords to spend a set amount, but sets the level at which the costs to a landlord are deemed to become unreasonable. It will not require landlords to invest more than is necessary to reach EPC rating E.

If a cost cap were to be inclusive of other funding it would create inequity between landlords, as landlords who can access third-party funding will have a lower maximum reasonable contribution cap. For example, the cost cap would be lower for a landlord who receives funding for ECO measures, simply because they happen to have a tenant who is receiving certain benefits.

The proposal will reduce the effectiveness of the regulation in the same way reducing the overall cost cap would: it will reduce the installation of energy efficiency measures and the ability of the regulation to meet its objectives.

The proposals will also inevitably increase administrative complexity, notably by requiring suppliers provide cost information, as discussed under question 5.

There is a wider question about whether landlords should be able to use ECO or equivalent funding to meet the minimum standards. We do not think the ECO scheme rules allow this. It is also undermines the government's strategic approach to tackling fuel poverty.

ECO and most grant schemes are based on the principle that they fund activity that would not have occurred otherwise. The principle is set out in the guidance for the current scheme³⁷.

A qualifying action is the installation at domestic premises of a measure that meets the eligibility criteria specified in the ECO2 Order. The act of promotion is therefore linked to the act of installing a measure. A supplier promotes the installation of a measure if it is a cause of that measure being installed.

In other words, a measure is only eligible under ECO if it results in an energy efficiency improvement beyond that already required by legal requirements.

³⁷ Ofgem, 2017, [ECO2t Guidance](#) (paragraph 2.2)

Therefore, ECO cannot be used to reduce the maximum contribution the landlord of a substandard property. It also implies ECO cannot be used to reach the minimum standard when these works would fall within the cost cap.

At a strategic level, as outlined elsewhere in this consultation response, meeting the fuel poverty and climate goals will require contributions from both ECO, equivalent funding *and* landlords. If landlords are not required to pay for measures, there will be a funding gap that is likely to be picked up by consumers or taxpayers.

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?

Citizens Advice does not agree that receiving supplier contributions should reduce the landlord contribution cap, for the reasons set out in our response to question 4. This removes the need for ECO providers to provide cost information to landlords. While we think there are benefits to transparency on the costs of ECO delivery, this regulation is not a suitable way to achieve this.

If ECO funding was to count as part of the landlord's contribution to the cost cap, suppliers would need to provide landlords with cost information.

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

We agree that where landlords are registering an exemption on cost grounds, they should be required to provide three quotes for the cost of the measures. This increases the chance of quotes reflecting the market cost of measures and reduces the risk of fraud. We do not think it will add a significant burden to landlords. (We think the impact assessment already overestimates the cost of the administrative costs of the regulation, as outlined in our response to question 10a).

Quotes should only be accepted where they are from an installer with the relevant certification. This is consistent with requirement in the regulation for works to be carried out by an appropriately certified installer and should further reduce the risk of fraud. As discussed under question 9 below, relevant certification should meet the requirements set out by the Each Home Counts review.

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.

Agree. Not limiting the validity of these exemptions would undermine the effectiveness of the amendment to deliver the required energy efficiency improvements.

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.

There should not be an exemption for landlords where a tenant has refused to consent to a Green Deal plan. The rationale for this that existed under the 2015 regulation no longer exists under the proposed revision.

In the context of a Green Deal plan, tenant consent refers to agreement to pay a Green Deal charge. Refusing consent implies the tenant is unwilling to pay the Green Deal charge, but does not imply that they otherwise oppose the installation of the energy efficiency measures.

Green Deal consent had relevance for the 2015 regulation because Green Deal was one of funding sources the regulation was based on. The current proposals do not rely on availability of Green Deal, ECO or equivalent funding. (If the landlord cannot access funding under the Green Deal, ECO or equivalent, they will be required to fund measures themselves).

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

In this answer we highlight a number of issues that are important for the success of the regulation, and have not been covered in the consultation document.

Quality of work

Measures to ensure the quality of work and protect consumers should be at the heart of any policy to increase uptake of energy efficiency measures³⁸. If work falls short tenants will miss out on lower bills and more comfortable homes, and landlords could face costly maintenance bills.

In recent years, there has been increasing concern about the quality of energy efficiency installations. This led the government to launch the Each Home Counts review of consumer protection in the sector³⁹. The review recommended a range of measures to improve consumer protection, including better checks on installers and a clear route to get things put right where something does go wrong, including useful guarantees.

The 2015 minimum standard regulation only states that landlords must use installers certified to 'relevant installer standards'. This refers to technical standards but does not necessarily cover the wider framework required to protect consumers. It also includes the Green Deal standards, which only apply to Green Deal installations.

The government should set out how the regulations will fulfill the Each Home Counts consumer protection recommendations.

Quality of EPCs

The regulation relies on the accuracy of Energy Performance Certificates (EPCs). Mystery shopping carried out 5 years ago by Which? suggested the quality of EPCs varied between installers⁴⁰. We hear anecdotal evidence that similar issues persist. The long validity period for certificates (they are currently valid for 10 years) increases the chances of them being inaccurate.

The PRS regulations increase the importance of EPCs being accurate. If an EPC inaccurately rates a property as over EPC band F, the landlord will not be required to make improvements under the legislation. It also gives incentives to bend the rules to get a certain EPC result.

Our research suggests the quality assurance framework may not provide enough incentive on firms to produce accurate EPCs, against pressures to keep costs competitive⁴¹.

To support this regulation, the government needs to understand the level of accuracy of EPC assessments, and introduce measures to address any shortfalls.

³⁸ Pye Tait, [Quality assurance in energy efficiency and low carbon schemes in the domestic market - report for Citizens Advice](#), June 2015

³⁹ See Dr Peter Bonfield, OBE, FEng, [Each Home Counts An Independent Review of Consumer Advice, Protection, Standards and Enforcement for Energy Efficiency and Renewable Energy](#), December 2016

⁴⁰ See Pye Tait, [Quality assurance in energy efficiency and low carbon schemes in the domestic market - report for Citizens Advice](#), June 2015

⁴¹ Pye Tait, 2015

This may link to other initiatives in this area. Each Home Counts is expected to cover EPC assessors along with installers. The bodies responsible for certifying EPC assessors have also been looking at improving their monitoring processes. A forthcoming BEIS call for evidence on improving EPCs will provide an opportunity to gather data and develop policies.

Enforcement of the minimum standards

The regulation will only be effective if landlords know it will be properly enforced. Research currently being carried out by local Citizens Advice offices is looking at local authority plans to enforce the regulation in their areas. Early findings from this research indicate that some local authorities may have no new resources to enforce the regulation and will be unable to carry out proactive enforcement activity. We will share the findings with BEIS when complete.

Clear guidance will be needed for local authorities due to the complexity of enforcement issues. This should cover how enforcement of the regulation relates to quality of EPCs, compliance with EPC regulations and HHSRS.

The regulation will be more effective if it is supported by wider measures to tackle disrepair and rogue landlords in the private rented sector. The Committee on Fuel Poverty recommends that the government consults on the scope for developing a nationwide landlord licensing scheme⁴². Other measures we recommend include⁴³:

- Give local authorities the power to ban landlords who repeatedly fail to fix disrepair.
- Require certification of properties against all national minimum standards before they can let out.
- Following other consumer sectors, introduce Alternative Dispute Resolution (ADR) for disputes between landlords and tenants in the private rented sector.
- If their landlord fails to uphold their legal responsibilities allow tenants to leave a fixed-term contract early without a penalty.

Housing Health and Safety Regulations

There is a strong link between the minimum standards and the Housing Health and Safety Rating System (HHSRS).

HHSRS which has existed since 2006 and provides a framework for assessing whether a dwelling is fit for human habitation. It requires duty on local authorities to identify where homes have health and safety hazards and take

⁴² Committee on Fuel Poverty, [Committee on Fuel Poverty annual report 2017](#), October 2017

⁴³ Citizens Advice, [It's broke let's fix it](#), July 2017

action if there is a serious (category 1) hazard (for example by providing the landlord with an improvement notice).

One of the most common category 1 hazards is excess cold. There is a strong correlation between properties that have an F or G EPC rating and those that have an excess cold hazard. Early guidance on HHSRS referred to a SAP⁴⁴ rating of less than 35 as a proxy for excess cold⁴⁵. The upper boundary for the F band is 38, so 35 would cover all G-rated properties and most F-rated properties. Oxford County Council recently conducted a full HHSRS inspection on 31 F and G-rated properties. We understand that all were found to contain a category 1 hazard for excess cold⁴⁶. Over half were also found to contain category 1 hazard for damp and mould .

The minimum standards complement HHSRS by encouraging the installation of energy efficiency measures in F and G rated properties. Where properties are deemed to be in breach of HHSRS, the landlord will still be required to rectify the conditions causing the hazard. This could also include properties with an E rating or above, because HHSRS looks at different criteria to SAP and because EPC assessments can be inaccurate.

Citizens Advice strongly recommends the government develops clear guidance on the interaction between HHSRS and the minimum standards. Most notably it should make clear that responsibilities under HHSRS are not affected by exemptions under the cost cap regulation.

The government could go further to improving the effectiveness of enforcement by better deeming categorising all F and G rated properties as a category 1 hazard under HHSRS. F and G rated properties are already classed as sub-standard and most are likely to contain a category 1 hazard for excess cold. Aligning the two definitions in this way would make things clearer for landlords. It would increase the effectiveness of local authorities who are responsible for enforcing both HHSRS and the minimum standards.

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?

Yes. We think the impact assessment:

- underestimates the overall benefits of the amendment

⁴⁴ Standard Assessment Procedure, which is the assessment used for the EPC certificate

⁴⁵ Department for Communities and Local Government, 2016, [A decent home: definition and guidance for implementation](#) (2006) DCLG. Para 5.27. Note this uses the 2001 SAP methodology

⁴⁶ Unpublished figures provided by Oxford City Council to the End Fuel Poverty Coalition. See also [Oxford City Council website](#)

- underestimates the value of higher cost cap options relative to lower cost cap options.

For these reasons, we think the department is wrong to discount the £5,000 cost cap on the basis that it has a poor NPV⁴⁷.

It is our view that the impact assessment underestimates the benefits of energy efficiency improvements to landlords, tenants and society at large.

For landlords, the impact assessment does not include any benefits from improved energy efficiency of their properties.

Landlords are likely to receive a benefit in terms of increased asset value, because there is a positive relationship between higher energy rating and property price. Although this type of benefit would not form part of the NPV calculation (because it is a price effect), it must be considered if the government wants to understand the impact of the regulation on landlords.

Landlords are also likely to benefit from⁴⁸:

- tenants in more energy efficient properties being more likely to pay rent on time.
- energy efficient properties likely being void for less time

While empirical research on these benefits has focused on the social rented sector, they are logically expected to extend to the private rented sector.

Landlords are also likely to receive a benefit from more energy efficiency properties having reduced maintenance costs, given the correlation between low energy performance and occurrence of damp and mould.

For tenants, there are significant health benefits from living in a more energy efficient home. These are discussed in the impact assessment but not included in the NPV calculation. The impact assessment justifies on the basis that there is a potential overlap with 'comfort taking'⁴⁹. We do not consider these benefits equivalent. The impact assessment also does not take into account the cost associated with excess winter deaths.

At the same time, we think the impact assessment overestimates the compliance costs to landlords. The cost to landlords of:

- familiarising themselves with the regulation
- completing the paperwork to show compliance

⁴⁷ Impact assessment, page 17

⁴⁸ Sustainable Homes, 2016 [Touching the Voids: The impact of energy efficiency on social landlord income and business plans](#)

⁴⁹ It refers to when households use the benefits of energy efficiency measures to increase their warmth, rather than reduce their bill.

is calculated at between £31 million and £37 million. A big component of this is the cost of getting an exemption and renewing it every five years. It assumes these F and G rated properties will remain unimproved by 2062. We think it is likely that other drivers (including policies to fulfil the government's own strategic fuel poverty and carbon goals) will lead to F and G properties being improved or taken off the market between now and 2062.

Finally, the impact assessment does not include the cost of other policies required to deliver our fuel poverty and climate goals as a result of setting a lower cost cap.

The Committee on Fuel Poverty expect the PRS regulation will contribute £0.3 billion of the £0.9 billion funding requirement for the 2020 milestone. This is based on the introduction of a £5,000 cost cap. We expect reducing the cost-cap to £2,500 to almost halve this contribution⁵⁰. This would lead to a shortfall in fuel poverty funding of £0.15 billion between now and 2020, as outlined in our response to question 10a. The Committee has said this will require the government to “urgently identify or propose alternative financing tools”, if it is going to meet its fuel poverty targets.

The government has not explained how it expects to cover this shortfall. This cost is not included in the NPV calculation.

Likewise, the Committee on Climate Change view minimum standards in the private rented sector as key component of an effective national emissions reduction strategy⁵¹. Given the relatively low marginal abatement costs of home energy efficiency measures, any shortfall in this area is likely to be picked up by more expensive carbon reduction policies elsewhere. Although the NPV does take into account greenhouse gas emissions, it does not take into account potential additional costs of the alternative climate reduction policies.

We are concerned that if these costs are not met by landlords they will be paid for by either taxpayers or by energy consumers. If it is the latter then they will be paid for by low income consumers pay disproportionately. The government should clearly explain in it's response to the consultation how it expects to make up this funding shortfall if it does not proceed with a £5,000 cost cap.

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

⁵⁰ This is assumes a broadly similar proportion of funding goes to low income households under both cost caps.

⁵¹ Committee on Climate Change, [Meeting Carbon Budgets - Progress in reducing the UK's emissions 2015 Report to Parliament Committee on Climate Change, June 2015](#)

pass through costs to tenants after making improvements to their properties?

The evidence from research carried out for Citizens Advice by Frontier Economics suggests the proposed minimum standards have little impact on the private rental market, in terms of rents or housing supply⁵².

Minimum standards will impose a relatively small capital cost on landlords compared to the total value of a property. If the cost cap is set at £5,000, the maximum contribution a landlord can make will be 2.4% of the average UK house sale price in 2016⁵³. Even if landlords are unable to pass any of this cost through to tenants, this would only be expected to reduce gross yields by between 0.02% and 0.05% for F-rated dwellings, and 0.05% and 0.17% for G-rated dwellings (the impact would be lower for the £2,500 cost cap). These costs will also be mitigated to some degree by benefits to landlords from the energy efficiency measures (see question 10a).

Rents

Our recent research⁵⁴ into a minimum cost cap suggests it is unlikely there will be significant upward pressure on rents from the demand or supply side.

On the demand side, rents could increase if tenants are willing to pay more for a property with a higher energy rating. However there is no evidence that they are: there is a no statistically significant relationship between EPC rating and rental prices. (However, there is for property sale prices).

On the supply side, rents could increase if a cost applies to an industry a whole, or a significant proportion of it⁵⁵. However, the regulation only applies to a small proportion (5%) private rental market. There is no market for F and G rated properties distinct from this wider market. Because individual landlords do not have price setting power, competition with the wider market will prevent those with additional costs from raising rents above the market rate. We therefore agree with the analysis from BEIS that costs energy efficiency measures are unlikely lead increased rents.

According to this research, even if some landlords were to increase rents by a small amount, the impact is likely to be outweighed by the amount tenants will save on their energy bill. In part this is because, landlords would likely have to minimise the level of any rent increases by spreading the increases over time.

⁵² Frontier Economics - report for Citizens advice, [The Impact of Minimum Energy Efficiency Standards in the Private Rented Sector](#), October 2017.

⁵³ The average contribution will be lower

⁵⁴ Frontier Economics - report for Citizens advice, [The Impact of Minimum Energy Efficiency Standards in the Private Rented Sector](#), October 2017

⁵⁵ If it does, then the level of competition determines how much of the cost is passed through

This is because if they tried to recover costs over a shorter time period, they would have to increase rents by a much larger amount, which tenants would not be willing to pay for. (If tenants were willing to pay above the cost for these improvements, then landlords would have already made them).

Housing supply

The regulation is unlikely to have significant effect downward pressure on housing supply, or the supply of rental properties. Total housing supply is relatively inelastic. Research suggests costs like this are unlikely to affect overall housing supply⁵⁶.

There is less evidence on the elasticity of the supply of private rented housing within the overall housing market. However, we expect the impact to be limited, firstly, by the small size of the impact of the regulation on rental yields. Secondly the regulation comes within a context where private rented housing is rising as proportion of the housing stock. This makes it more likely that affected properties will stay within the sector.

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

No answer.

⁵⁶ Frontier Economics - report for Citizens advice, [The Impact of Minimum Energy Efficiency Standards in the Private Rented Sector](#), October 2017.

Free, confidential advice. Whoever you are.

We help people overcome their problems and campaign on big issues when their voices need to be heard.

We value diversity, champion equality, and challenge discrimination and harassment.

We're here for everyone.



citizensadvice.org.uk

Published June 2016

Citizens Advice is an operating name of The National Association of Citizens Advice Bureaux.

Registered charity number 279057.