



All Party Parliamentary Group for the **Private Rented Sector**

Improving the Energy Efficiency of Private Rented Housing

REPORT

24th February 2016

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The APPG for the Private Rented Sector

The APPG for the Private Rented Sector was formed in July 2011.

Its purpose is to raise awareness of the private rented housing sector in Parliament; to provide a forum for parliamentarians to discuss issues pertinent to the sector and engage with landlords, tenants and other interested parties; and to consider policies and actions to further improve the operation of the sector and make recommendations to Government.

Officers of the Group During the Inquiry

- ❑ Oliver Colvile MP (Conservative, Plymouth Sutton and Devonport) – Chairman
- ❑ Mark Prisk MP (Conservative, Hertford and Stortford) – Vice Chair
- ❑ Karen Buck MP (Labour, Westminster North) – Vice Chair
- ❑ Marie Rimmer MP (Labour, St Helens South and Whiston) – Vice Chair
- ❑ Lord Whitty (Labour) – Vice Chair

Secretariat

The Public Affairs Company acts as the group's secretariat on behalf of the Residential Landlords Association.

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1.0 ABOUT THE INQUIRY

- 1.1 On 12th October 2015 the Group formally launched its inquiry with a call for evidence on the energy efficiency of private rented housing, covering the following:
- ❑ The impact of recent policy developments on energy efficiency improvements in the private rented sector.
 - ❑ What new policies could be developed to support the sector within the Government's overall ambitions for household energy efficiency and given its efforts to ensure value for taxpayers' money.
- 1.2 Thirty items of written evidence were submitted to the Inquiry.
- 1.3 Two oral evidence sessions were held.
- 1.4 On the 26th October 2015 the Group took evidence on from:
- ❑ Simon Gordon, Policy Adviser, Residential Landlords Association.
 - ❑ Jenny Holland, Head of the Parliamentary Team, Association for the Conservation of Energy.
 - ❑ Dr Jan Rosenow – Research Associate, Respublica; Knowledge Leader, Ricardo Energy & Environment; and Senior Research Fellow, Science Policy Research Unit (Sussex University).
- 1.5 On the 30th November 2015 the Group took evidence from:
- ❑ David Young, Managing Director, British Gas Energy Efficiency.
- 1.6 All the evidence provided, both written and oral, can be read at <https://www.rla.org.uk/improving-the-energy-efficiency-of-private-rented-housing-written-and-oral-evidence>.
- 1.7 The Group would like to thank all those individuals and organisations that provided both written and oral evidence which has been invaluable in preparing this report and for the constructive way in which all witnesses have engaged with the Group's work.

2.0 SUMMARY & RECOMMENDATIONS

- 2.1 Following the Government's decision in the Autumn Statement to introduce a new system to replace Energy Company Obligation from April 2017, the Group believes that this needs to target the most vulnerable households, whatever tenure they might be. It is not therefore convinced of the need to ring fence funding specifically for the private rented sector (PRS).
- 2.2 Landlords, local authorities and energy companies need to better co-ordinate their efforts to identify vulnerable tenants who will most benefit from energy efficiency improvements to their properties. To help achieve this, we call on the Government to convene a summit with all key stakeholders to prepare practical proposals about how this could be achieved.
- 2.3 The Group is concerned by evidence that raises questions over the accuracy of Energy Performance Certificates (EPCs) as the means by which the energy performance of a property is measured. We believe that there is scope for greater clarity in the data and information which EPCs measure and record so that both landlords and tenants are able to access and understand this in a manner which is convenient and easily understood. We therefore call on the industry and Government to review the purpose and information required on EPCs. We call also for a review of the skills required of EPC Assessors as part of this review.
- 2.4 Evidence received demonstrates that there is a clear need for better enforcement of the Housing, Health and Safety Rating System (HHSRS) on the part of local authorities. The Group is calling for a comprehensive review by the Government of the HHSRS as the standard by which conditions in private rented housing are measured to ensure that it is easy to understand. This in turn would assist local authorities to be clear on their obligations and enforce the scheme appropriately. This should be conducted alongside updating the guidance on HHSRS which has not been altered since 2006.
- 2.5 The Group believes that an assessment is urgently needed of the ability of local authorities to enforce the HHSRS. It makes no sense to be imposing yet further regulations on the sector without a certainty that local authorities can enforce them properly and uniformly across the country.
- 2.6 Incentives for the landlord are key to galvanising change. Where energy efficiency improvements are made to a property, the APPG considers that it is just for both the landlord and the tenant to benefit from this. One way of achieving this would be to implement an allowance claimable as a deduction against rental income when recommendations on Energy Performance Certificates (EPCs) are carried out by a landlord.
- 2.7 It is clear that tenants are relatively unaware of their ability to change energy suppliers. The Group would welcome steps on the part of the Government to enhance access to this information, for example, through making this explicit in the How to Rent guide.
- 2.8 The Group is in favour of energy suppliers implementing tariffs targeted at those less well-off customers and providing clear, accessible information on the easiest way to switch suppliers on utility bills.
- 2.9 The Group believes that prospective tenants should be given details of the average costs of all domestic bills (council tax, gas, electricity, water) for a property before they sign a contract to rent it.
- 2.10 To ensure that the onus is on landlords to help tenants, landlords should be required to provide details of where tenants can source information on utilities.

- 2.11 Ahead of the 2020 implementation date, the Group recommends that as good practice tenants must first ask the landlord prior to installing a smart meter, with the caveat that the landlord is allowed a period of time (for example, 28 days) to respond to the request.
- 2.12 Agreement should be assumed and landlord consent would not be required to be proven prior to installation. Where a landlord had a concern they should be expected to provide clear, evidence based reasons for their decision. Where a dispute arises, this should be taken to arbitration using a neutral body, such as a tenancy deposit scheme, before a smart meter is installed.
- 2.13 It is self-evident that steps must be taken to increase awareness of responsibilities amongst both landlords and tenants. We recommend the creation of a PRS 'hub' online, using a gov.uk domain to provide clear information on policies, funding streams and responsibilities for both parties. Such a hub should draw together information, policy initiatives and announcements and best practice guides from across all Government departments in a way which is easy to understand and not segregated by departmental responsibilities.

3.0 POLICY BACKGROUND

- 3.1 According to the English Housing Survey, 32% of dwellings in the private rented sector (PRS) were built before 1919 making them some of the hardest to treat properties for improving energy efficiency.
- 3.2 Between 2001 and 2013, the Standard Assessment Procedure (SAP) rating, used to measure the energy efficiency of dwellings, increased in the PRS by an average of 16 points. This was a bigger increase than any other tenure over this period. Even so, the sector's average SAP score remains behind all other tenures.
- 3.3 In 2013, there were around 1.5 million homes (6%) with the worst energy efficiency (SAP bands F or G), of which 28% (419,000) were privately rented. Just 19% of homes with better energy efficiency (SAP bands A to E) were privately rented.
- 3.4 Privately rented homes are the least likely to have had their cavity walls insulated (55%) compared to other tenures.
- 3.5 35% of privately rented homes have hard to treat cavity walls, while 74% have double glazing, lower than any other tenure.
- 3.6 Separate research reports from Ofgem and the Competitions & Markets Authority (CMA) in 2014 and 2015 respectively both found that 77% of tenants living in rented accommodation had never switched energy supplier. In the Ofgem survey, 20% of tenants were unaware that it was possible to switch supplier.

3.7 RECENT POLICY DEVELOPMENTS

- 3.7.1 The Energy Efficiency (Private Rented Property) Regulations 2015 approved in March mean that from April 2018 all domestic private rented properties will need to have an Energy Performance Certificate (EPC) rating of at least E. These regulations also mean that by April 2016 tenants in private rented housing will have a new right to request a landlord's consent to energy efficiency improvement work which the landlord cannot refuse.
- 3.7.2 The Energy Company Obligation (ECO) provides funding for energy saving measures in rented properties and can potentially cover the entire cost of such measures. Energy Companies are obliged under ECO to ensure and pay for energy saving measures to achieve set target levels. The criterion for this support depends upon tenants' circumstances, as well as the location and construction of a property. If a tenant qualifies for ECO funding then the contractor that has been appointed to carry out the work and obtain the funding must gain permission from the landlord and can also discuss any shortfall in funding and options for how this could be financed. In October 2014 the Government published an impact assessment on the future of the ECO and found that previously 11% of ECO measures had gone towards the PRS.
- 3.7.3 From April 2017 the ECO will be replaced with a new, cheaper domestic energy efficiency supplier obligation which will run for 5 years. The new scheme will, the Government argues, upgrade the energy efficiency of over 200,000 homes per year, saving those homes up to £300 off their annual energy bill.
- 3.7.4 In the March 2015 Budget the Government decided not to renew the Landlord Energy Savings Allowance (LESA). This was a tax allowance for the cost of acquiring and installing certain energy-saving items. The Group understands that this was dropped because of low uptake by landlords.

- 3.7.5 In July 2015 the Government announced that in light of low uptake and concerns about industry standards, there would be no further funding releases of the Green Deal Home Improvement Fund. In a letter to the Chairman of the All Party Group, the Minister responsible, Lord Bourne, noted that the Department for Energy and Climate Change (DECC): *“recognises that the current absence of this option does create some uncertainty for tenants and landlords and for the sector more widely.”*
- 3.7.6 In November 2015, DECC Secretary, Amber Rudd MP, announced that the Government is looking at streamlining the tax and policy framework around energy efficiency initiatives.
- 3.7.7 In June 2015 the European Court of Justice ruled that the UK’s longstanding reduced 5% rate of VAT on energy-saving products was in breach of EU laws.
- 3.7.8 During the course of the inquiry, the Group was made aware of a report by the Building Research Establishment which has called into question the accuracy of EPCs. This includes 100,000 PRS properties that may have been wrongly classified as F or G.

3.8 WHY DOES THIS MATTER?

- 3.8.1 At a time when household finances are tight, it is important that policy seeks to do all possible to keep energy bills down. A blog post on the DECC website in August 2014 noted that *“fuel poor households privately renting a G EPC rated home would need, on average, to spend over £1,200 more on energy to heat their homes properly than typical households, and those renting EPC band F homes would need to spend over £700 more.”*
- 3.8.2 Polling for Shelter, published in October 2015, found that 22% of private sector tenants had problems with poor insulation or excess cold in their properties. Improving the energy efficiency of such housing is therefore crucial to helping to address the negative effects that this can have on a tenant’s health.
- 3.8.3 Housing remains by far the largest emitter of carbon dioxide in the United Kingdom. Given the ever growing size of the private rental market it is crucial that the energy efficiency of such housing is improved if the country is to meet its ambitions for carbon reduction.

4 RECOMMENDATIONS

4.1 ENERGY COMPANY OBLIGATION

- 4.1.1 Throughout the inquiry, several contributors raised concerns over the Energy Company Obligation (ECO) and whether it effectively reaches the private rented sector. In particular, the Residential Landlords Association (RLA) queried the uncertainties surrounding the ECO's future.
- 4.1.2 Future Climate raised concerns that the PRS substantially misses out on support under ECO, and this is not equitable for private tenants who are paying towards the costs of these obligations.
- 4.1.3 The Energy Saving Trust (EST) would like to see ECO funding ring-fenced, criticising the scheme for allowing energy suppliers to promote energy efficiency in only the most cost effective homes, ignoring the harder to engage PRS.
- 4.1.4 Following the Government's decision in the Autumn Statement to introduce a new system to replace ECO from April 2017, the Group believes that this needs to target the most vulnerable households, whatever tenure they might be. The Group is not convinced of the need to ring fence funding specifically for the PRS, and would like to see the Government look at removing standing charges for people living in fuel poverty.**
- 4.1.5 That said, it was clear from the evidence provided that more work is needed to better identify vulnerable tenants in the private rented sector who would benefit most from energy efficiency improvements. We call therefore on landlords, local authorities and energy companies to better co-ordinate their efforts to identify such tenants. To help achieve this, we call on the Government to convene a summit with all key stakeholders to prepare practical proposals about how this could be achieved and to monitor the subsequent progress of the private rented sector in delivering the agreed proposals.**

4.2 ENERGY PERFORMANCE CERTIFICATES

- 4.2.1 In both the oral evidence sessions and the written evidence provided to the Group, concerns were raised over the accuracy of Energy Performance Certificates (EPC). There were clear concerns that EPCs are unreliable and unsuitable for older homes which are not easily able to be made energy efficient due to their structural formation and age.
- 4.2.2 The RLA cited evidence from the Building Research Establishment (BRE) that there are thousands of dwellings whose energy efficiency ratings have been wrongly classified, while the Chartered Institute of Building (CIB) asserted there is a lack of knowledge on how traditional buildings perform; and therefore how energy efficiency retrofit affects such buildings, posing an ever increasing risk of unintended consequences and performance gaps between predicted energy savings and actual thermal performance.
- 4.2.3 The Country Land and Business Association (CLA) claimed that EPCs are unfit for purpose:

"EPCs are widely recognised as being fundamentally flawed and unsuitable for the uses for which they are being applied having originally been designed to provide a basic indicator of the energy cost of running a home. An EPC does not provide a sound basis on which to base energy efficiency investment as is now being required through the PRS energy efficiency regulations."

“In particular the EPC methodology fails to cater for older, rural properties having been designed largely around assumptions made on more modern, urban centric properties with an over reliance on hypothetical savings.”

- 4.2.4 The RLA recommended that, in order to support upgrades to improve energy efficiency in PRS housing, it must first be ensured that EPCs are accurate, resolving the current problems revealed by BRE relating to the inaccuracy of U-values for solid walls and un-insulated cavity walls.
- 4.2.5 The heating and insulation specialist, Wolseley, indicated in their evidence that certainty in progress could be ensured by the introduction of minimum efficiency standards into building regulations.
- 4.2.6 Based on the evidence submitted, it is clear that there are significant concerns over the effectiveness and reliability of EPCs.**
- 4.2.7 The Group believes that there is scope for greater clarity in the data and information which EPCs measure and record so that both landlords and tenants are able to access and understand this in a manner which is convenient and easily understood. We therefore call on the industry and Government to review the purpose and information required on EPCs.**
- 4.2.8 Whilst EPC Assessors are currently required to register with DECC, the Group considers that there is an opportunity to upgrade the training and support provided so that they are able to better perform their role in supporting and advising customers. We call for a review of the skills required from EPC Assessors. As part of the review we recommend consideration of the purpose of EPCs.**

4.3 INDUSTRY REGULATION

- 4.3.1 Many of those who submitted evidence were of the opinion that regulation across the sector is inaccessible and difficult to understand. The result, they concluded, was that there is a need for different regulation which is easier to understand and enforce.
- 4.3.2 Some organisations, such as the Sustainable Energy Association (SEA) would like to see limited, targeted regulation to ensure take-up of cost-effective measures where possible, and for Government intervention for those in greatest need. The Environmental Change Institute (ECI) argued that minimum standards should be implemented in order for landlords to receive rent from those in receipt of housing benefits. It concluded:

“At a minimum, no landlord should receive housing benefit without demonstrating that the property is band E or better on the EPC”.

- 4.3.3 The ECI goes on to make the case for clarification over who is responsible for the energy efficiency of a property on a par with ensuring disabled access, and providing fire escapes, going on to call for local authority funding to enforce the Housing Health and Safety Rating System (HHSRS) on landlords. The EST sympathised with this argument, proposing *“robust enforcement action through HHSRS”*.
- 4.3.4 The National Union of Students (NUS) is also in favour of providing local authorities with greater resource to enforce regulations and raised their concerns over the cost of improvements which could be passed on to tenants in higher rents. To mitigate this, they propose rent controls.

- 4.3.5 Wolseley recommended removing responsibility entirely from landlords of new build properties, advising that minimum efficiency standards should be introduced into Building Regulations. It argued that these standards could be expressed as a SAP rating or perhaps an EPC rating.
- 4.3.6 **Evidence received demonstrates that there is a clear need for better enforcement of the HHSRS on the part of local authorities.**
- 4.3.7 **The Group is calling for a comprehensive review by the Government of the HHSRS as the standard by which conditions in private rented housing are measured to ensure that it is easy to understand. This in turn would assist local authorities to be clear on their obligations and enforce the scheme appropriately. This should be conducted alongside updating the guidance on HHSRS which has not been updated since 2006.**
- 4.3.8 **An assessment is urgently needed of the ability of local authorities to enforce the HHSRS, particularly in terms of resources. It makes no sense to be imposing yet further regulations on the sector without a certainty that local authorities can enforce them properly and uniformly across the country.**

4.4 FINANCIAL INCENTIVES

- 4.4.1 Several submissions called for financial incentives for landlords to implement and maintain adequate energy efficiency standards in their properties:

“We are very much of the opinion that landlords should be incentivised financially to improve the energy efficiency of their properties, mainly owing to the fact that they do not benefit financially from the improvements themselves; rather their tenants do.”

- Scottish Landlords Association

“Providing additional incentives such as reductions in Stamp Duty and Council Tax for energy efficiency homes would also help stimulate interest in this area.”

- National Association of Professional Inspectors and Testers

- 4.4.2 In particular, the removal of the Landlord’s Energy Saving Allowance (LESA) provoked concern:

“... extending LESA would drive earlier and greater compliance with the minimum standard; and it would provide an alternative route to compliance that was not dependent upon Green Deal finance.”

- The Association for the Conservation of Energy

- 4.4.3 LESA was a tax allowance for the cost of acquiring and installing some energy-saving items, introduced in 2004 to encourage landlords to improve the energy efficiency of let residential properties. It ceased in April 2015 after the Government decided not to renew it in the March budget of that year due to low take up. The UK Green Building Council, amongst others, argued for its re-introduction in their evidence.
- 4.4.4 The Association of Residential Letting Agents (ARLA) argued that the failure to renew LESA, combined with what they recognise as a lack of demand from tenants, will mean that landlords will no longer be incentivised to carry out energy efficiency improvements in properties. In addition, they added that without assistance from the now defunct Green Deal, upgrading properties is not financially viable.

- 4.4.5 ARLA, Leagate Properties, Energy UK and the RLA all agreed that financial incentives through the tax system would help to tackle the problem, whether this is through offsetting costs against tax, mortgage relief or the re-introduction of LESA (or some other comparable scheme).
- 4.4.6 **Incentives for the landlord are key to galvanising change. Where energy efficiency improvements are made to a property, the Group considers that it is just for both the landlord and the tenant to benefit from this. One way of achieving this would be to implement an allowance claimable as a deduction against rental income when recommendations on EPCs are carried out by a landlord.**
- 4.4.7 **Similarly, the removal of LESA leaves a gap for landlord incentives. LESA encouraged landlords to implement energy efficiency measures in their properties. The Group would welcome its re-instatement, and failing this suggests the introduction of a rebate on works carried out.**
- 4.4.8 **It is also clear that tenants are relatively unaware of their ability to change energy suppliers. The APPG would welcome steps on the part of the Government to enhance access to this information, for example, through making this explicit in the How to Rent guide. We would also encourage greater dissemination of the Guide so that it fulfils its potential to assist as many tenants as possible.**
- 4.4.9 **The Group is in favour of energy suppliers implementing tariffs targeted at those less well-off customers and providing clear, accessible information on the easiest way to switch suppliers on utility bills.**
- 4.4.10 **The Group also believes that prospective tenants should be given details of the average costs of all domestic bills (council tax, gas, electricity, water) for a property before they sign a contract to rent it. To ensure that the onus is on landlords to help tenants, landlords should be required to provide details of where tenants can source information on utilities.**

4.5 SMART METERS

- 4.5.1 In its evidence to the Group, Smart Energy GB noted that smart meters: *“are an essential part of making the private rented sector energy efficient.”* It claimed that they enable consumers to use less energy with nearly eight in ten (79%) users having taken steps to reduce gas and electricity consumption.
- 4.5.2 Current Government policy is that by 2020 every household in the country should have a smart meter installed to monitor in real time energy usage and the costs.
- 4.5.3 British Gas said it will be installing 16 million meters in homes by 2020.
- 4.5.4 The Group agrees on the importance of Smart Meters in helping tenants to keep on top of their energy costs. That said, whilst tenants can request that they be fitted without the permission of their landlords we believe that collaboration and communication between a tenant and their landlord is key before a meter is installed. Whilst there are benefits to be felt from meters for both landlords and tenants, the property never the less remains owned by the landlord.
- 4.5.5 **Ahead of the 2020 implementation date, the Group recommends that as good practice tenants must first ask the landlord prior to installing a smart meter, with the caveat that the landlord is allowed a period of time (for example, 28 days) to respond to the request. Agreement should be assumed and landlord consent would not be required to be proven prior to installation. Where a landlord had a concern they should be expected to provide clear, evidence based reasons for their decision.**

Where a dispute arises, this should be taken to arbitration using a neutral body, such as a tenancy deposit scheme, before a smart meter is installed.

4.5.6 The exception to this would be where a property forms part of a district heating system network and the installation of a smart meter would make no difference to their energy bills.

4.6 ACCESSIBLE POLICIES

4.6.1 There were a number of complaints that the present regulatory framework is overly complex and difficult to enforce. The overwhelming consensus amongst those who gave evidence was that there needs to be a review of the way in which these are framed. British Gas indicated that their recent report with Shelter demonstrated that awareness of energy efficiency schemes amongst landlords and tenants is very low.

4.6.2 The CIB suggested that landlords should be provided with information and advice about improving their properties specific to the age and type of construction. It also made the case that they need to be provided with advice on the energy efficiency benefits of proper maintenance and repair as well as more well-known energy efficiency measures.

4.6.3 The Glass and Glazing Federation (GGF) made the suggestion that for incentives and policies to be effectively understood, there should be a cross-departmental approach on the part of Government. Similarly, the National Association of Professional Inspectors and Testers (NAPIT) proposed linking energy efficiency improvements to health and wellbeing as a more appealing and engaging angle to encourage engagement and understanding.

4.6.4 It is worth noting that several submissions, while broadly in favour of incentives and financial support for efficiency improvements, were critical of the Green Deal which was described variously as “overly complex”, “bureaucratic”, and “stop-start policy making”. The government should seek to develop a replacement scheme to provide financial support for energy efficiency improvements which is simpler for both property owners and contractors to implement.

4.6.5 It is self-evident that steps must be taken to increase awareness of responsibilities amongst both landlords and tenants. We recommend therefore the creation of a PRS ‘hub’ online, using a gov.uk domain to provide clear information on policies, funding streams and responsibilities for both parties. Such a hub should draw together information, policy initiatives and announcements and best practice guides from across all Government departments in a way which is easy to understand and not segregated by departmental responsibilities.