Consultation response

December 2020

Improving the Energy Performance of Private Rented Homes

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1. About Energy Saving Trust

Energy Saving Trust is an independent organisation dedicated to promoting energy efficiency, low carbon transport and sustainable energy use to address the climate emergency.

Our work focuses on reaching net zero targets by taking action to reduce energy consumption, installing new infrastructure and accelerating a move to sustainable, low carbon lifestyles.

A trusted, independent voice, we have over 25 years' sector experience. We provide leadership and expertise to deliver the benefits of achieving carbon reduction targets: warmer homes, cleaner air, healthier populations, a resilient economy and a stable climate.

We empower householders to make better choices, deliver transformative programmes for governments and support businesses and community groups with strategy, research and assurance – enabling everyone to play their part in building a sustainable future.

2. Consultation description

The consultation proposals apply to private rented sector homes in England and Wales and can be found here[1]

Under current regulations known as the minimum energy performance standards (MEES), homes in the private rented sector must be rated EPC Band C or have a valid exemption. The proposals would increase the minimum standard from Band E to Band C. This would apply for new tenancies by 2024 and all tenancies by 2027.

'*The government has committed to upgrade as many private rented sector homes as possible to Energy Performance Certificate (EPC) Band C by 2030, where practical, cost-effective and affordable.*

This consultation sets out a suite of policy proposals towards achieving this. These proposals will bring significant benefits to landlords, tenants and our environment including:

- *reducing energy bills and increased comfort for tenants and supporting delivery of our statutory fuel poverty target of EPC C by 2030*
- *potential property value improvements for landlords*
- *delivering carbon emission savings over Carbon Budgets 4 and 5, making progress towards our net zero target*'

[1] https://www.gov.uk/government/consultations/improving-the-energy-performance-of-privately-rented-homes

3. Summary of our response

We welcome the ambitious proposals to improve the energy efficiency of the private rented stock. There are around 5 million homes in this sector in England and Wales, 67 percent of which are below an adequate energy efficiency level at Band D or below.

The government's preferred proposal (Option B) uses the headline cost-based metric (EER) on the EPC and a maximum investment cap of £10,000. We think that there is a risk that this metric could stimulate an increase in upgrading gas boilers, lighting and rooftop solar at the expense of thermal and low-carbon heating measures.

The consultation also outlines an alternative proposals including a 'stretch' proposal (Option D) which would require landlords to meet Band C using both the cost (EER) and carbon reduction (EIR) metrics with a higher investment cap of £15,000. Our view is that this proposal is better aligned with net zero, the need to get the stock 'low carbon heat ready' and would be more effective at tackling fuel poverty.

Compared with the government's preferred option, the stretch proposal would:

- Deliver almost double the carbon reduction (10.4MtCO2 rather than 6.1MtCO2 over the period of the 5th Carbon Budget)
- Triple the volume of low carbon heating (700,000 compared 210,000 heat pumps).
- Double the number of 'worst' homes bought up to standard (70 percent of Band F and G homes to C compared with 33 percent for Option B).

<u>The need for alternative financing</u>: Whether the investment cap is set at £10,000 or £15,000, there are significant regions of England and Wales where neither rental revenue nor asset values will support the necessary financing. Where landlords are willing to undertake the work to a high standard, we would support their access to alternative means of low-cost, government-backed loans attached to the property rather than the owner (where this can be shown not to increase overall bills for the tenant).

Our response also include recommendations for a robust approach to quality standards, an enhanced role for local authorities and more support for landlords.

<u>The need for advice</u>: The legislation could be challenging for some of the 2.6 million landlords, many of whom work part time or are retired. However, with the provision of alternative finance and a free, impartial and trusted advice support (as exists in Scotland as part of the Home Energy Scotland service) so that landlords understand *how to act*, it would be appropriately ambitious and achievable.

4. Overview

Principles

Our response assesses the proposals by the following principles. For each of the proposals we considered if it was:

1: Aligned with Net Zero?

The UK has a statutory target to reduce greenhouse gas emissions to net zero by 2050. It has recently approved an interim target to reduce emissions by at least 68 percent from 1990 levels by 2030. Emissions from heating homes have reduced by only 15 percent since 1990 compared with a 41 percent reduction for the whole economy. That suggests that a steep increase in both ambition and delivery is appropriate here.

In 2018, 213,000 private rented homes were rated as EPC Band 'F' or 'G' rated. The government's preferred Option B would improve only 35 percent to 'C' compared with 70 percent for Option D. Similarly, Option D will deliver almost double the emissions savings for the 5th Carbon Budget period (10.4mtCO2 rather than 6MtCO2)

2. Low-carbon heat 'ready'?

EPCs are widely understood by the public, and EPC 'C' as a standard is a useful proxy for the thermal efficiency necessary for low carbon heating (such as electric heat pumps). There is, however, a risk that if the cost-based Energy Efficiency Rating (EER) metric is prioritised, the policy will stimulate an increase in upgrading gas boilers, lighting and rooftop solar at the expense of thermal and low-carbon heating measures.

Option D which uses a dual cost and carbon metric would be more effective at balancing the government's cost and carbon policies.

The impact assessment suggests that Option D with a dual metric and higher, £15,000 cost cap, could stimulate a total of 700,000 heat pumps compared with 210,000 for Option B (cost metric and £10,000 cost cap). This is better aligned to the government's challenging new target for 600,000 heat pumps a year by 2028 (from 30,000 in 2019). Whilst Option D will require more investment, if this encourages more suitable measures to be installed first time, then it will result in a long-term cost saving.

3. 'Worst first' – effective at reducing Band F and G properties?

To impact fuel poverty, it is necessary to target the worst homes as well aiming to improve the overall average efficiency of homes. Option D would improve over 70 percent of Band F and G homes to C compared with 33 percent for Option B.

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4. Fair distribution of costs?

Whether a £10,000 or £15,000 investment cap is chosen, the proposal will have a disproportionate impact on landlords with higher relative retrofit costs and /or lower asset prices and lower rental yields. This could, in turn, increase rents and/ or reduce affordable housing in some areas.

Where landlords are willing to undertake the work in a responsible manner (to a high standard and without inappropriately passing through costs to tenants) and to contribute financially, we would support their access to alternative means of low-cost, government-backed finance that is attached to the property rather than the owner and repaid either through local taxes or through charges added to the energy bill (where this can be shown not to increase overall bills for the tenant). This approach could also support homes where structural issues need to be resolved before upgrades.

The Climate Change Committee's Sixth Budget report shows that by 2050, the energy bill savings will outweigh the capital costs of improving energy efficiency and installing low carbon heating across the housing stock. This suggests that that it could be viable for the government to invest in the housing stock as a long-term infrastructure project where the upfront capital is recouped through energy bill savings/ local tax revenue. The National Infrastructure Bank could set up a revolving loan fund for this purpose.

Whilst mortgage-based lending will be an appropriate route for many homeowners including landlords, it will not always be suitable for those not planning to retain the property long enough to recoup the investment or those requiring expensive measures (for example, solid wall insulation). Where measures do not 'pay back' from energy bill savings within a reasonable timeframe but make economic sense at a system level (when other savings such as network and balancing costs are included), it is appropriate for these costs to be partly or wholly socialised.

6. Effective?

The proposal aims at achieving 90 percent compliance. We support this intent but emphasise that this will not be achieved unless local authorities, as the enforcement bodies, are properly resourced and empowered to take action. Our key recommendation here is for a joint national landlord register and compliance and exemptions database (accessible to both local authorities and eligible third parties). Part of the registration fee could go to resource local enforcement (with fines supporting further action).

We welcome the intention to ensure that the regulations apply to the whole PRS sector (with an exemptions process for where measures are not suitable) rather than the current process which excludes those not currently required to have an EPC.

The 5 million PRS homes are owned by around 2.6 million landlords, 83 percent of whom own four or less properties, many of whom work part time or are retired. This legislation could be challenging for many but we would strongly back an approach that supports those willing to take action with Trustmark-registered installers, dedicated advice, retrofit coordinators and private and government-backed loans. Our work in Scotland shows that most landlords are willing to make changes if they understand how. Investment here will reduce later costs and can prompt action beyond compliance.

7. Do it right, do it once?

In this sector where the landlord makes the capital investment but the tenant gains from the immediate benefits (bill savings), there is an incentive for a 'tick box' approach to compliance. It is therefore important that there are robust quality standards, strong auditing and a process for ensuring that appropriate measures are selected.

We support the use of PAS2035 for complex measures or packages of measures, particularly the clear role for retrofit coordinators in developing a medium-term retrofit plan. To support the sector scale-up however, we would welcome either more support for existing trades to become accredited and/ or new proposals on how PAS2030 agents such as retrofit coordinators could sign off compliant work installed by competent tradespeople not accredited to PAS2030.

5. Consultation response

5.1 Introduction

Question 1: We would welcome views on possible impacts of the policy on the size of the PRS sector, the effect this could have on vulnerable households, and suggestions to mitigate this effect where it does occur, including any evidence.

The Energy Saving Trust welcomes the ambition set out in this consultation. The proposals set out here, however, will not be enough. Whilst 67% of the 5 million PRS homes are rated as EPC D or below, there are significant regions of England and Wales where neither rental revenue nor asset values will support the necessary financing.

There will need to be alternative forms of finance and support available to ensure that the work is carried out across the PRS stock (rather than confined to more affluent areas), and that it does not cause the sector to contract in ways that impact on housing affordability.

5.2 Potential impacts

For many landlords, where the home has an asset price of £244,000 (the English average) or higher and/ or where the retrofit costs are reasonable (for example, the average of £5,000), then different forms of asset-based finance (as proposed by the Green Finance Institute here), personal loans or savings will work well.

However, there are significant regions where an asset-based approach will not be viable. This point applies whether the cost cap is set at £10,000 or £15,000.

i) Low asset prices: Whilst the average UK house price is £244,000,[2] this hides significant national and regional variation with £256,000 the average in England but a far lower £161,000[3] average for Wales. Within England, this article[4] cites eight areas of England including Durham, Blackpool Middlesbrough and Darlington with average house prices from £102,000 to

[2] https://landregistry.data.gov.uk/app/ukhpi#:~:text=As%20of%20September%202020%20the,compared%20to%20the%20previous%20year
[3] https://www.gov.uk/government/publications/uk-house-price-index-wales-january-2020/uk-house-price-index-wales-january-2020
[4] https://www.express.co.uk/life-style/property/1338194/house-prices-property-news-cheapest-location-buy-home-UK

£131,000 and seven Welsh towns in the Rhondda Valley where the average falls below £100,000.

ii) <u>Low rents/ rental yields</u>: This property website suggests that the average rent for a 3-bed house in Blackpool is £650 a month or £7,800 per annum. After mortgage costs and wear and tear, this could leave a gross profit of around £2,000. The impact assessment suggests that an interest-only loan for £10,000 at 4 percent interest rate would cost around £420 a year which would be difficult to support without a rent increase.

iii) <u>Rent thresholds</u>: Some low-income tenants may be wary of paying higher rents in return for lower energy bills in case the lower bills do not materialise. According to the English Housing Survey (2018), 29 percent of PRS tenants find it difficult to pay their rent, of which 8 percent find it very difficult to pay their rent. Similarly, in areas where a high proportion of PRS tenants are dependent on housing benefit, there may not be scope to raise rents. Table 11 from the impact assessment includes Blackpool, where 71 percent of PRS tenants receive housing benefit, and Middlesbrough where 62 percent of tenants do.

iv) <u>Impact of a contracting rental sector on overall energy efficiency:</u> Buy-to-let landlords have faced increased regulation in recent years. Where this matches falling demand (for example, London), this could lead to landlords exiting the sector and without parallel regulation for the owner-occupiers, these homes would be unlikely to be upgraded. Whilst the government is proposing a new requirement on mortgage providers to improve the energy efficiency of homes they lend on, the consultation document highlights that first-time buyers (who account for half the market) do not generally have sufficient 'headroom' in their borrowing capacity to be eligible for extra borrowing and so would be excluded from the requirement and support.

v) <u>Impact of a contracting rental sector on housing affordability</u>: Where a contracting rental sector is unable to meet local demand for low-cost housing, there will be social and economic implications for low-income households such as increased competition, higher rents and potentially increased homelessness (unless matched by a corresponding increase in social rented properties).

The impact assessment suggests that there are an estimated 28,000 benefit claimants in the UK's 10 areas where demand rented properties is highest properties (around 0.6

percent of English PRS). A strong contraction in these areas could increase homelessness. Similarly, in areas such as Cornwall where prices are high relative to income and homes more likely to require high investment (limited gas connections), PRS homes may be sold to the second / holiday home market thereby reducing overall housing availability.

5.3 Suggestions to mitigate negative impact

i) Alternative finance: Where landlords are willing to take action and invest up to a reasonable threshold (informed by local rents and asset prices), they should be able to access appropriate finance and other support to support them to carry out a whole house retrofit (potentially including support if a void period is necessary). Where this happens, it will be important to ensure that the landlord does not benefit inappropriately – for example, accessing multiple grants to achieve compliance and then selling the property at profit, or accessing grants and then increasing rents. Measures to counter this could include requirements to 'freeze' rent for a period and repaying any loan/ grant if the asset in sold or re-mortgaged at a higher price.

We think that long-term loans that sit on the property rather than to the borrower could help here. Examples here include the property assessed clean energy (PACE) model where the loan is repaid alongside property-based taxes (Council tax would be there equivalent here) and a new version of the 2013 UK Green Deal mechanism where the loan was repaid through energy bill savings via a charge on the electricity bill. Unlike the previous version however, this would need to have a very low interest rate with the repayments set at a low enough level to not increase energy bills for those under-heating or with lower usage. In practice, this might mean setting the payment at fifty percent of modelled bill savings (and using grants to 'top up' finance if required). A fund to support tenants needing to vacate the property during the refurbishment would further support ambitious action.

ii) Advice: As well as access to finance, many landlords will need other support to ensure that appropriate measures are installed and work is to a high standard. Whilst we support the use of PAS2035 for complex measures and the role of a Retrofit Coordinator to produce a medium-term retrofit plan, there is also a need for free, impartial and tailored advice for landlords and tenants.

iii) Introduce minimum standards for the owner occupied sector: The CCC has recommended that new regulation is needed for the owner-occupied sector where homes at sale should meet Band C by 2028. Introducing this at 2028 (or earlier such as 2026 but with access to flexible finance as above) would reduce the incentive for landlords to dispose of hard-to-treat homes.

Question 2: Do you foresee any impacts for protected groups? Please provide evidence to support your answer.

The impacts could be experienced very differently in different regions of England depending on house prices, average income and demand for rental properties. In some areas, this will overlap with areas with higher BAME populations.

These differential impacts could be exacerbated by the structural shifts to the economy and the COVID-19 induced recession. Whilst the impact assessment suggests that that there are a lower proportion of protected groups such as disabled people in the private rented sector than the social rented sector, the impact on these tenants could be high if the policy increases rents or reduces housing affordability.

Question 3: We would welcome views on possible long-term impacts of COVID-19 that could impact on making the required energy efficiency improvements from April 2025 and suggestions to mitigate this effect where it does occur, including any evidence.

There are early indications are that homeworking is changing rental demand. Demand and rents are down in urban areas such as London and Edinburgh, as tenants search out better value for money or more space in smaller towns and cities.

This could increase prices in the later areas, making retrofit using asset-based finance more viable here whilst reducing its viability in areas such as London (if prices fall sharply). The uncertainties in the current situation highlight the importance of having a range of finance options that are not tied to potentially volatile housing markets.

The pandemic has increased unemployment, rent arrears and fuel debt. Without alternative finance, this could reduce landlords' willingness and ability to invest. Where improvements can be made however, lower bills can help tenants with rent arrears.

5.4 Metrics (EER v. EIR)

Question 4: Do you agree with the government's preferred new target of EER C as a minimum energy performance standard in the PRS?

We do not think that EER, as a cost-based metric, will deliver sufficiently on the carbon reduction objectives of the policy and therefore support the dual cost and carbon metric (EER and Environmental Impact Rating [EIR]) option which, along with a higher cost cap, could deliver almost double the carbon reduction (10.4MtCO2 rather than 6.1MtCO2 over Carbon Budget 5 for the government's preferred Option B).

The CCC's Sixth Carbon Budget report makes it clear that we should aim to 'front-load' action wherever possible and that delays in action will increase the overall costs of getting to net zero. Table 4 from the impact assessment (reproduced below) shows that the dual metric, with a £15,000 cost cap, would double the low-carbon heating installed, compared with the option with a single, cost-based metric but same cost cap, and more than triple the volume delivered with a cost-based metric and lower £10,000 cost cap (700,000 compared to 350,000 and 210,000).

All measures would increase under the dual metric option apart from solar thermal and solar photovoltaics (which would reduce).

Table 4: Estimated number and type of measures installed as a result of the Regulations, millions, 2025-2028

Type of installation	£5,000	£10,000	£15,000	£15,000 CC
Loft insulation	0.62	0.63	0.62	0.68
Cavity Wall Insulation	0.46	0.48	0.48	0.52
Solid Wall Insulation	0.18	1.08	1.11	1.16
Floor insulation	0.93	0.67	0.68	0.82
Draught-proofing	0.44	0.43	0.45	0.62
Low carbon heating	0.00	0.21	0.35	0.70
Heating Controls	1.19	0.60	0.59	0.84
Hot Water Cylinder Insulation	0.30	0.31	0.31	0.34
Low energy lighting	0.29	0.16	0.18	0.26
Double glazing	0.13	0.09	0.09	0.15
Solar photovoltaics	0.38	0.27	0.28	0.23
Solar thermal	0.05	0.11	0.11	0.12
Total	**5.19**	**5.44**	**5.79**	**6.90**

Whilst Option D (with the dual metric and higher cost cap) would deliver almost double the carbon saving and more than triple the low carbon heating, the average cost for households achieving the standards is similar - £5,300 under the dual metric compared with £4,400 for the government's preferred Option B (with a £10,000 cost cap and single cost-based metric). This is shown below in Table 12 from the Impact Assessment.

Table 12: Estimated average costs and benefits to landlords from amending the Regulations (2018 prices) [52]

Average (mean) cost per property with measures installed	£5,000	£10,000	£15,000	£15,000 CC
Average capital cost for those achieving the required standards or above	£2,200	£4,400	£4,900	£5,300
Average cost for those making as much progress as possible towards the required standard	£2,500	£5,800	£7,400	£9,700
Average landlord hidden cost per property	£170	£240	£260	£290
Average property value differential	£3,100	£5,400	£6,100	£5,600
Increase in rent received in 2028 (low)	£0	£0	£0	£0
Increase in rent received in 2028 (central)	£110	£220	£260	£230
Increase in rent received in 2028 (high)	£230	£390	£410	£410

Question 5: We would welcome your views on the pros and cons of these alternative metrics, in relation to our overall policy goals around reducing carbon emissions, fuel poverty, and energy bills; please provide evidence with your answer.

We support the continued use of EPCs as a useful tool with a high level of consumer awareness and coverage of the housing stock. Whilst we recognise their limitations, we feel that approaches that combine the EPC's existing metrics (EIR, EER and KWh/ m2) is the best approach in the short to medium term.

The priority for the 2020s must be to scale up home energy upgrades to ensure that, as far as possible, homes are improved to a reasonable level of thermal efficiency by 2030 to avoid any delays to a widespread rollout of low-carbon heat. We do not think that a major change in metrics is compatible with this. Whilst there is an urgent need to improve the robustness of EPCs, amend incorrect EPCs and update the underlying assumptions (as an example, with a process to regularly update both the grid-carbon intensity and cost data), we think they are sufficient to base the legislation on.

If PAS2035 is required for all upgrades beyond simple measures, then homes will also receive a more detailed medium-term retrofit plan. Alongside this we support the development of digital green building passports that can incorporate smart meter data and promote a shift to measures based on actual data rather than modelled savings.

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Note on EPCs: We welcome the government's new action plan[5] to improve EPCs but we think it needs to go further. For example, whilst currently assessors can be removed from the register, there is no way of dealing with deliberately falsified EPC ratings or for third parties such as an advice agency, Ofgem or a tenant to raise a complaint about an incorrect or misleading EPC. A system that enables third parties to transparently challenge EPCs is urgently needed.

Question 6: Do you agree with the government's preferred policy scenario of requiring 'new tenancies' to reach EER C from 1 April 2025 and 'all tenancies' to reach EER C by 1 April 2028? If not, do you have alternative suggestions; provide evidence with answer.

We support a phased approach as a sensible way for spreading the impact on the supply chain. We would support an earlier start date of 2024 for 'new tenancies' to bring forward demand and help the supply chain to scale up. As stated previously, we think that a cost-based EER metric alone will incentivise measures that are less disruptive (lighting, gas boilers) and/ or more likely to add value to the property (solar) rather than those that save most carbon or prepare the home for low carbon heating.

By itself, the EER metric would stimulate greater uptake of gas boilers (upgrades and in homes where a gas connection is available but not used). Whilst this will reduce carbon emissions and fuel bills on a temporary basis when replacing older inefficient boilers, it will not make a permanent contribution to net zero, is likely to 'lock in' future emissions with the lifetime of the asset and will defer other changes until later. It would be more cost effective overall if appropriate action was incentivised from the outset

We would support expenditure from April 2021 as eligible for the cost cap to encourage uptake of the Green Homes Grant and to prevent landlords from deferring work.

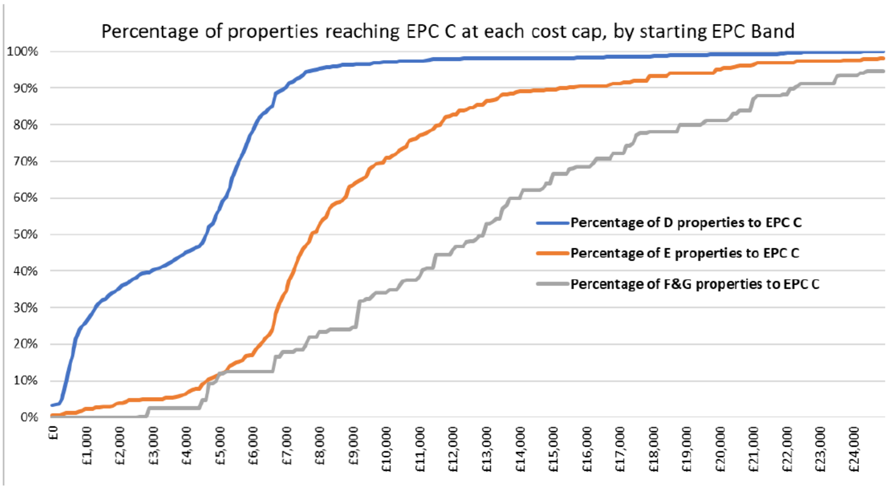
Question 7: Do you agree with increasing the cost cap to £10,000 inclusive of VAT as our preferred policy proposal? If not, please explain why not and provide evidence.

We think that the cap of £10,000 is too low. Chart 1 from impact assessment (below) shows that the proposed cap would only improve around 33 percent of F and G homes to Band C compared to around 70 percent with the higher £15,000 cap. Similarly, it would improve 70 percent of E rated homes compared to 90 percent with a £15,000 cost cap.

[5]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/922660/EPC_Action_Plan.pdf

This means that the higher cost cap would have almost double the impact on the worst performing homes and those tenants with the highest fuel poverty gap.

Chart 1: Percentage of properties reaching EPC C (EER C) at each cost cap by starting Band, BEIS modelling



The modelling is in line with earlier modelling by Cambridge Econometrics and Verco which found that 15-16% of homes will not achieve EPC C with a £10,000 investment cap[6].

Whilst we do not support the inclusion of VAT with a £10,000 cap, we would support it with a higher £15,000 cap. We note that leaving the EU could provide an opportunity for the UK to reduce the VAT for all energy measures (and refurbishment) to the lower 5 percent rate to support this agenda – we would strongly support such a change.

Question 8: Should the £10,000 cost cap be adjusted for inflation?

Yes because at a 2% rate of inflation, by 2030, £10,000 could be worth 15-30% less than today, as stated in the consultation

Question 9: Should a requirement for landlords to install fabric insulation measures first be introduced? If yes, when, and how should such a requirement be implemented? If no, what are the alternative installation methods that maximise energy efficiency outcomes? Please provide evidence to support your answer.

[6] Cambridge Econometrics and Verco (2014), Building the Future: The economic and fiscal impacts of making homes energy efficient, http://www.energybillrevolution.org/wpcontent/uploads/2014/10/Building-the-Future-The-Economic-and-Fiscal-impacts-of-making-homes-energyefficient.pdf

Yes - it is vital that thermal measures and low carbon heat are prioritised. Electricity will be largely or totally decarbonised by the mid-2030s.

Without a requirement here, landlords will prioritise measures that are less disruptive (such as lighting changes) or more likely to add value to the property (gas boiler upgrades, solar thermal or photovoltaics). This could mean further work is required before low-carbon heat can be installed. Given this risk, we support a 'requirement' rather than a recommendation or incentive which are unlikely to be effective.

In terms of the implementation, whilst cost-effective fabric measures should always be prioritised (loft insulation and top up, cavity wall insulation), there is scope for discretion on the prioritisation of measures like floor and solid wall insulation if recommended by a PAS2035 retrofit coordinator, based on the home's likely pathway for low-carbon heat (informed by a regional heat plan, where available).

Where an electric heat pump is the most likely future heat option, it would be appropriate to include measures to adapt the existing heating system to low-temperature heating, (for example, heat emitter and pipework changes), if recommended by the retrofit coordinator.

Some measures such as external wall insulation will be more cost-effective and manageable for both landlords and their tenants if they are done as part of an area-based programme organised by or through a local or regional authority. Where this measure is needed and a local programme under development, we would support landlords delaying this measure (for exemption via a partial, time-limited exemption)

We would support a wide spread use of PAS2035 and Trustmark as a means of supporting quality installations. Where relatively straightforward, single measures are required however, the additional £500 cost for Trustmark (as estimated in the impact assessment) cannot be justified but for more complex measures or packages of measures (for example for packages of measures for homes rated as EPC 'E' or below), the PAS2035 process based around the medium-term retrofit plan seems a good approach to ensure that measures which are installed are appropriate and the investment is well spent.

As with EPCs, however, we would like to see more transparency/ oversight of both this process and the retrofit coordinator plans. As the retrofit coordinator will be commissioned by the landlord and may be employed by the installer, there is a risk that his/her impartiality will be compromised.

In addition to robust auditing by Trustmark, we would welcome the ability for third parties to access and scrutinise the measures and plans logged on the Data Warehouse. There is anecdotal evidence, for example, that the current MEES has increased heating controls on older, inefficient heating systems as a cost effective means of 'passing' the regulation. An accessible Data Warehouse would enable 'gaming' to be identified before practices become too widespread.

5.5 Investment cap

Question 10: We would welcome views on the alternative of a dual metric target to reach both EER Band C cost metric and also EIR Band C carbon metric, with an increased cost cap of £15,000 inclusive of VAT.

As stated previously, the dual metric and £15,000 cost cap is our preferred option.

This provides the best balance between the fuel poverty and carbon reduction objectives and will deliver far more low carbon heating (700,000 compared to 210,000 for the government's preferred Option 2 with a single cost-based EIR metric and a £10,000 cost cap). We think that it is unlikely that many solid walls will be insulated with a cost cap of £10,000. The *average* cost under this proposal would be only £1,100 more but it would deliver nearly double the carbon saving (10.4MtCO2 rather than 6.1MtCO2 over the fifth carbon budget period).

Question 11: Should government introduce an affordability exemption? If so, we would welcome views on how such an exemption should be designed and evidenced, and any potential impacts on the PRS market.

We think that 'what landlords can afford to pay' and 'what stock is improved' are separate questions. Where there is a reasonable case for landlords not being able to meet the retrofit costs through mortgage-based lending (or where landlords wish to go higher than compliance), they should be able to access alternative forms of finance such as grants and low-cost loans that are attached to the building or energy bill rather than the owner.

We would support a local affordability assessment based on average rents, capital values in the region, demands for PRS properties and common property types. A local threshold would be less immune to gaming by landlords who could otherwise aggregate/bring forward maintenance spending to reduce profits.

We think that all landlords should have to contribute towards the costs (before accessing alternative finance), to prevent landlords improving and selling on rental properties at a profit and to avoid retrofit loans going to businesses that are not viable (which could increase the risk of funding being misallocated).

If this cap was set locally/ regionally based on local housing prices and housing supply then in areas where a contracting rental sector could have a detrimental impact on housing affordability, the local or combined authority could opt for a low affordability threshold to support landlords.

Landlords should then pay up to a specific threshold with the ability to access a loan (and grants where appropriate) for the remaining amount. Where a loan is accessed, there should be additional restrictions (such as using PAS2035 and ensuring that home is either low-carbon heat 'ready' or incorporates low-carbon heat).

Question 12: What should the eligibility criteria be for an affordability exemption if introduced, and how can the criteria accommodate fluctuations in a landlord's finances and/or in the value of a property? Please provide evidence to support answer.

As above.

We need to start thinking of homes as national infrastructure. The changes required will often not pay back within the period that owners hold the property for (or will only 'pay back' if the system benefits are included). On this wider perspective, the building owner undertaking the work is providing a service in upgrading a part of the national infrastructure. In doing this they should be appropriately supported, rather than penalised for undertaking work on a property with a low current performance.

Question 13: Should we incorporate TrustMark into energy performance improvement works? If not, please explain why not and provide evidence with your answer.

Yes. It is essential that the measures are installed properly or the benefits will not materialise.

The consultation suggests three options to incorporate TrustMark - in guidance, law, or through the offer of concessions if TrustMark-accredited installers are used. Given the split incentive in the PRS (landlord pays for the work but the tenant benefits through lower fuel bills), some property owners will look to make improvements as cheaply as possible/ in a way that is least disruptive or to add most value to the asset.

As highlighted earlier, we think the PAS2035 process should play an important role where packages of measures are installed (for example, Band E and below properties) to ensure that appropriate measures are selected, sequenced and supplemented with ventilation.

For PAS2030-accredited installers, there is a tension between the costs to the micro-businesses of becoming accredited for each measure and the urgent need to scale-up the supply chain. It costs £1,500-£2,000 to become registered for one measure under PAS 2030 and then another £500 for each additional measure. Whilst builders, for example, are likely to have the skills to install external wall insulation, many will not have the time or money to become accredited or manage the paperwork once accredited.

Where there are existing quality schemes (such as Microgeneration Certification Scheme for low carbon heating/ generation and FENSA for double-glazing) these should be acceptable. We would also urge the government to explore other options for accrediting smaller builders using membership bodies such as the Federation of Master Builders. An option could be for a retrofit coordinator to sign the work of the non-Trustmark accredited tradesperson in accordance with PAS 2035. The retrofit coordinator would be responsible for the paperwork and bear final liability for redress if the installation was found to be inadequate.

Question 14: What role can the private rented sector play in supporting the rollout of smart meters and what are the barriers and possible solutions to achieving this?

We support the inclusion of smart meters within the regulation. As the current target is for the programme to be largely complete by 2024, there could be a requirement for all properties to have smart meters installed by 2024 (bar exemptions).

Alternatively, landlords could be required to have smart meters by December 2022 (unless there is a valid reason for an exemption). This would provide more accurate data to inform the retrofit process and support a drive towards fitting measures based on actual performance rather than modelled savings.

Question 15: We would welcome views on whether the PRS Regulations may need to be tightened further for the 2030s? Please provide evidence with your answer.

Even with the dual metric and higher cost cap option and high compliance, there will still be a significant number of homes with a below-reasonable level of energy efficiency by 2030, therefore we would support a further change in the regulations for 2030.

It would help landlords if these subsequent regulations were signalled as far in advance as possible to support those looking to wrap work up in a single intervention or to encourage those interested in going beyond compliance to do so.

5.6 Compliance

Question 16: What are the other steps government could take to increase awareness and understanding of the PRS Regulations?

The impact assessment highlights that there are around 2.6 million landlords most of whom do not belong to a professional membership body or use letting agents. Many of these will be 'accidental' landlords with 45 percent having just one property and a further 38 percent with 2 to 4 properties.

Whilst this regulation, along with other changes in the sector may prompt a proportion of these to exit the sector, there will still be a sizable number of landlords that will need support to take appropriate action.

Here we would support a government-backed advice service with specialist support for landlords, as currently operates in Scotland through the Home Energy Scotland network.

Question 17: Is the introduction of a PRS property compliance and exemptions database necessary to help local authorities to proactively enforce the standards? If yes, should we include the per-property registration fee within the cost cap? If not, what are the alternatives to a PRS property compliance and exemption database?

We agree that a PRS property and compliance and exemptions database is necessary, however we do not think it will be sufficient to secure the 90 percent compliance that the policy is aiming for.

The Committee on Fuel Poverty (CFP) commissioned research[7] from RSM UK Consulting to look at enforcement levels of the MEES in England. They found that current

[7]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/813586/CFP_recommendations_on_PRS_Enforcement_research_31_May_2019.pdf

enforcement levels in England are low, and that local authorities do not have access to accurate data that is necessary for efficient enforcement. They concluded that a nationwide landlord register for England is the only means by which properties can be systematically identified. The CFP therefore recommend that a national mandatory PRS registration scheme should be set up covering England, and that it should be run centrally but accessed and enforced by local authorities locally. The scheme should integrate the necessary details on the landlords, their properties and the energy efficiency ratings of the properties.

Scotland and Wales both already have landlord registers.

We agree it would be reasonable to include the registration fee within the cost cap.

Question 18: Do you agree that government should set a maximum total registration fee for landlords with a very large portfolio? If yes, how many properties should qualify as a "very large" portfolio? What should the maximum fee be? If you do not agree to a maximum total registration fee proposal, do you have alternative suggestions?

No – the proposed registration fee at £30 is low. We would support its use to fund:

i) the costs of setting up, maintaining and auditing a joint landlord register, exemption and compliance database
ii) with a portion going to the relevant local authority as the enforcement agent

As such we do not see why a landlord with multiple properties should contribute less to the running costs of the scheme or would require less oversight.

We note however, that in Scotland, the registration fee for the landlord register is higher at £65 with reductions for multiple properties. Were the proposed fee to increase in line with the Scottish scheme (in order to fund a full register) then we would support a reduction for multiple properties, particularly where these are in the same area.

Question 19: Should government seek primary powers to place a requirement on letting agents and online property platforms to only advertise and let properties compliant with the PRS Regulations? If not, please explain why not and provide evidence with your answer.

Yes, we agree with the recommendation here.

Question 20: Should government remove the seven to twenty-one day exemption period on landlords making all reasonable efforts to provide a valid EPC prior to a

property being marketed or let? If not, please explain why not and provide evidence with your answer.

Yes, this legal loophole should be closed to ensure that EPCs are provided.

This issue is highlighted in the EPC Action Plan[8] tenants are '*often not provided with EPCs before they make a rental decision, because of ambiguity in the requirements on landlords and estates/lettings agents related to the 7 and 21 day periods*[9]'

Question 21: Should government increase the level of the fixed civil penalty fine for offences under the EPB Regulations (currently £200)? If yes, how high should the fine be?

We agree that the fine should be increased where no EPC is present. Where an EPC has recently expired, there should be discretion as to whether a fine is appropriate.

5.7 Enforcement

Question 22: Should government enable LAs to inspect properties for PRS compliance? If not, please explain why not and provide evidence with your answer.

Yes. The proposal aims for a 90 percent compliance rate therefore local authorities as the enforcement agent need to be empowered to take relevant action. This power in itself may also function as a potential deterrent to unscrupulous landlords seeking to make fraudulent claims.

Question 23: Should government permit local authorities to use EPC Open Data for some phases of PRS enforcement? Please provide evidence with your answer.

Yes. This will be an important tool for local authorities to assess compliance and take cost-effective enforcement action.

Question 24: Should there be a requirement for post-improvement EPCs (and for the cost to be included within the cost cap)?

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[8] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/922660/EPC_Action_Plan.pdf

[9] BEIS and MHCLG., 2020, EPCs for Buildings. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/922660/EPC_Action_Plan.pdf

Yes. This will be an important tool in tracking compliance. Where the work is being overseen by a retrofit coordinator this should be able to be produced as part of this work at little additional cost.

Question 25: Should a valid EPC be in place at all times while a property is let?

Yes, a valid EPC should always be in place, removing the legal loophole that permits properties to be let without them under the EPB Regulations.

Question 26: How can the most consistent set of recommendations in the EPC be assured? Does using only the most recent SAP methodology allow this?

Whilst we support the current use of EPCs as the best tool we have currently, we would encourage the government to supplement these with digital green building passports in the medium term.

Question 27: Should listed buildings and those in a conservation area be legally required to have an EPC?

Yes (or an equivalent). A retrofit coordinator should be used to ensure that appropriate measures are selected for listed buildings. In conservation areas, the local planning authority could issue relevant guidance.

Question 28: Should government seek primary powers to increase the maximum fine level to £30,000 per property for each breach of the PRS Regulations? If yes, should it be adjusted for inflation? If not, what would be an alternative, appropriate maximum fine level? Please provide evidence with your answer.

Yes, the penalty must be notably higher to dis-incentivise non-compliance by landlords. £30,000 is a is an appropriate figure as it is consistent with the penalty regime under the Housing Health and Safety Rating System, which creates simplicity across the differing regulations applied to the PRS. We believe that, like the proposed cost cap, it should be adjusted for inflation, to ensure it remains a significant deterrent to non-compliance.

Whilst the ability to levy effective fines is essential, we support an approach that aims to support all landlords who are willing to take effective action.

Question 29: Should government introduce powers for tenants to request that energy performance improvements are carried out where a property is in breach? If yes, how could a redress mechanism be devised?

Yes, but this must be carefully designed to protect tenants from threat of eviction as a result of such a request. The consultation states that these proposals will require primary legislative powers, so will take longer to implement than other changes to the PRS regulations. This extended period should be used to ensure that the Government consults with resident groups on the most effective way to design the regulations and ensure that they work for tenants.

Many will be unaware that they have the right to request changes so letting agents should be required to share this information with prospective tenants and it should be added to the information that landlords are required to provide tenants. Any redress mechanism should be as simple as possible and work within current frameworks. For example, payments could be made through tenancy deposit schemes.

Question 30: Should government introduce some form of local authority disclosure or benchmarking where a property is in breach of PRS Regulations?

No comment

5.8 Exemptions

Question 31: Do you agree that the updated exemption regime should come into force on 1 April 2025? If yes, do you agree that the property compliance and exemptions database should be opened six months prior to commencement of exemptions?

Yes

Question 32: Should the 'new landlord' temporary exemption be simplified so that it applies to any person who has become a landlord within the last six months? Please provide evidence with your answer.

No comment

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