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CUTTING ENERGY BILLS AND RAISING STANDARDS FOR PRIVATE RENTERS

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Private renters are among the most vulnerable to the energy crisis. Over a quarter of renting households live in fuel poverty. Energy efficiency is the best way to bring bills down. But landlords have little incentive to invest, leaving tenants exposed. New energy efficiency standards would save renters £570 per year, lead to aggregate annual savings of £1.75bn, and help meet fuel poverty and energy demand reduction targets.

The government consulted on proposals for revised Minimum Energy Efficiency Standards (MEES) in 2020. Despite subsequently including these proposals in its Heat and Buildings, Sustainable Warmth and Net Zero strategies, it has not yet brought them to Parliament. The return of the Energy Bill in 2023 is a chance to revive the proposals. This briefing sets out how the government can do so in a way that ensures responsible landlords are supported.

Improving energy efficiency in the private rented sector is essential to combat fuel poverty, reduce UK energy demand and improve our energy security, and meet our net zero ambitions. Moreover, it can be done in a way that creates jobs and grows the economy.

This briefing is supported and endorsed by the following organisations:

NEA Action for Warm Homes

Green Finance Institute

GENERATION RENT The national voice of private renters

Matt Copeland, Head of Policy and Public Affairs at National Energy Action, said:

"Private renters are more likely to be fuel poor than people in any other tenure, and more likely to live in the leakiest properties, often needing to spend thousands of pounds more than the average household just to keep a healthy temperature at home. Tightened minimum standards are key to ensuring that all fuel poor private renters can live in a warm home."

Emma Harvey-Smith, Director at the Green Finance Institute, said:

"*Decarbonising homes in the private rented sector offers an opportunity to address the cost-of-living, energy, and climate crises in the UK. Introducing revised minimum energy efficiency standards and fiscal incentives to improve private-rented homes will support those in fuel poverty, while also providing certainty to landlords, retrofit contractors and financial institutions on the timescales and demand for energy efficiency improvements."*

Dan Wilson Craw, Deputy Director at Generation Rent, said:

"It is clear what a positive impact minimum standards have already had for renters living in the worst properties. By improving insulation and heating in private rented homes, landlords allow their tenants to heat their homes at less cost which not only improves comfort levels but reduces damp and mould, and the health problems they cause. The government has to go further, not just for renters but for the sake of the planet and the country's energy security."

Executive summary

> The government cannot meet its statutory fuel poverty, energy demand reduction and net zero homes targets without regulatory intervention on energy efficiency in the private rented sector.

> The government consulted on strong plans to tighten minimum standards on energy efficiency in September 2020 and included these plans in the UK's fuel poverty and net zero strategies. The new standards, which would set a minimum standard of EPC C for new tenancies from 2025 and existing tenancies from 2028, should now be introduced through the Energy Bill.[1]

> New standards could drive £12bn of investment and save £1.75bn in aggregate every year.[2] They would improve our energy security by reducing the amount of imported gas wasted through walls, windows, and roofs.[3]

> Energy efficiency improvements reduce the risk of arrears for landlords and increase the value of the improved property.

> Making improvement costs deductible from rental profit for income tax (rather than capital gains tax) would support landlords, including smaller landlords, to make the changes. It would also end the incentive to sell created by the current tax system.

This is an energy security, fuel poverty and net zero priority

Every household and business in the UK has felt the impact of the energy crisis. Soaring gas prices mean that even after the government's Energy Price Guarantee intervention, energy bills have more than doubled from an average of £1271 in 2021 to £2500 this year and £3000 from April 2023.[4] These rises will

[1] Government could change the minimum EPC rating required for the private rented sector using secondary legislation, but to introduce the full range of changes proposed in the 2020-21 consultation, including to enforcement and compliance, new primary legislation is needed.

[2] E3G modelling based on English Housing Survey and Ofgem typical consumption values. The average savings for other housing tenures on being upgraded to EPC are £407 for housing association properties, £409 for local authority properties, and £639 for owner occupied properties. Based on the overall composition of the English housing stock, this gives an overall average saving for an English household upgraded to EPC C of £587.

[3] BEIS, September 2020, **Improving the Energy Performance of Privately Rented Homes in England and Wales: Consultation Stage Impact Assessment**

[4] Ofgem, 24 November 2022, **Latest energy price cap announced by Ofgem**

push many more households into fuel poverty. National Energy Action estimates that from April, 8.4 million UK households will be in fuel poverty.[5]
The crisis underlines the need to waste less energy in inefficient buildings. The built environment is also the source of around one-fifth of UK greenhouse gas emissions. Improving the energy efficiency of UK homes is therefore critical for energy security, combatting fuel poverty, and for reaching net zero.

The government has three important energy efficiency targets related to energy security, fuel poverty and net zero.

1. A legally binding **fuel poverty target**, set in 2014 and reconfirmed in 2021, to "ensure as many fuel poor homes as is reasonably practicable achieve a minimum energy efficiency rating of band C by 2030."[6] Fuel poverty is now defined according to whether a low-income household lives in a property rated EPC D or below and is left with a residual income below the poverty line after spending the amount required to heat their homes.[7] In practice, the fuel poverty target means upgrading all low-income homes to EPC C.
2. The Clean Growth Strategy set a target to **upgrade all homes to EPC C by 2035** "where practical, cost-effective and affordable", with an earlier 2030 target date for privately rented homes, which was confirmed again in last year's Heat and Buildings Strategy.[8]
3. In November 2022, the Chancellor Jeremy Hunt said the UK would aim to **reduce final energy demand across buildings and industry** by 15% by 2030.[9]

Both the Sustainable Warmth Strategy and Heat and Buildings Strategy of 2021 explicitly list new energy efficiency standards in the private rented sector as a key policy measure to meet their targets. The Sustainable Warmth Strategy said new regulatory obligations would drive "over £10 billion of investment in the private rented sector."[10]

Without these regulations, neither strategy has a plausible path to success. The same is true of the new energy demand reduction target. While the government's ambitions on energy security, fuel poverty and climate change are

[5] National Energy Action, 1 December 2022, **8.4 million UK households will be in fuel poverty from April, says National Energy Action**

[6] BEIS, February 2021, **Sustainable Warmth: Protecting Vulnerable Households in England**

[7] BEIS, February 2022, **Collection: Fuel poverty statistics**

[8] BEIS, October 2017, **The Clean Growth Strategy** and BEIS, October 2021, **Heat and Buildings Strategy**

[9] HM Treasury, November 2022, **Autumn Statement 2022**

[10] BEIS, February 2021, **Sustainable Warmth: Protecting Vulnerable Households in England**

all laudable, they are not credible unless the government brings forward their proposed new minimum standards.

People in private rented accommodation are particularly vulnerable to the energy crisis, and have limited ability to protect themselves

In the Autumn Statement the Chancellor described the government's renewed and vital focus on energy efficiency as a "shared mission" between families, businesses, and the government.[11] But renters have not been included.

Investing in energy efficiency lowers bills for good. But it is tenants who pay energy bills, giving most landlords no incentive to improve the quality of their properties beyond the current minimum standard of EPC E. It is also generally harder for renters to access government energy efficiency schemes targeted at people on low incomes. This means tenants have few options to reduce their energy demand without simply rationing their use.

This is a significant omission. Just over 4.6 million households in England, around one in five, are privately renting.[12] Although the mean age for a private renter is 41 – younger than the average social housing occupant (53 years) or owner occupier (57 years) – almost one in ten renters is aged over 65.[13] The sector is in acute need of energy efficiency investment. The latest figures from 2020 show it is the sector with the highest concentration of fuel poor households (25%).[14] Unfortunately, the real number will now be even higher.

Around two-thirds of privately rented properties in England and Wales fall below EPC C, the government's target rating for all fuel poor homes by 2030 and all homes by 2035 as far as is reasonably practicable.[15] According to the government, 970,000 properties in the sector – almost one in four privately rented homes – would "likely not meet" the Decent Homes Standard, which includes a requirement for homes to provide "a reasonable degree of thermal comfort."[16] The most inefficient domestic properties are on average up to 2°C

[11] HM Treasury and the Rt Hon Jeremy Hunt MP, 17 November 2022, **Autumn Statement speech**

[12] DLUHC, December 2022, **English Housing Survey 2021 to 2022: headline report**

[13] DLUHC, July 2022, **English Housing Survey: Private Rented Sector, 2020-21**

[14] BEIS, February 2022, **Annual Fuel Poverty Statistics in England (2020 data)**

[15] DLUHC, July 2022, **English Housing Survey: Private Rented Sector, 2020-21**

[16] DLUHC, July 2022, **English Housing Survey: Private Rented Sector, 2020-21**

colder in winter than the most efficient homes, and underheating is more prevalent in inefficient and fuel poor homes.[17]

The government has a strong regulatory option that would save tenants £570 per year

Existing minimum energy efficiency standards introduced in 2017 targeted the very worst performing homes – those rated EPC F and G – and set a deadline beyond which they could not be let unless the landlord had a qualifying exemption or improving the property would exceed a cost cap of £3500.[18]

The government's new proposals would require privately rented homes to be brought to EPC C by 2025 for new tenancies, and 2028 for all existing tenancies, subject to similar exemptions and a new cost cap of £10,000.[19] This cap is inclusive of any government support – for example Energy Company Obligation funding – for which a property is eligible. The government's impact assessment calculated that the average per-property spend would be £4700, although for many houses rated EPC D the cost could be less than £1000.[20]

These improvements would bring huge benefits to tenants. At current prices, improving a home to EPC C would save the average renting household £570 per year.[21] More energy efficient properties are more comfortable and healthier to live in, and can reduce the risk of problems like damp, condensation, and mould, all of which contribute to higher risk of cardiovascular and respiratory ill-health.

Energy efficiency upgrades will also benefit landlords and the wider economy

The benefits for the wider economy of implementing new minimum energy efficiency standards in the private rented sector are significant. At 2022 prices, improving all privately rented homes to EPC C would mean aggregate savings of

[17] BEIS, September 2020, **Improving the Energy Performance of Privately Rented Homes in England and Wales: Consultation Stage Impact Assessment**

[18] BEIS, October 2017, **Domestic private rented property: minimum energy efficiency standard: landlord guidance**

[19] This cost cap does not mean landlords are obliged to spend up to it. The cap is calculated based on an estimate of the costs of completing the works recommended by an energy performance certificate.

[20] BEIS, September 2020, **Improving the Energy Performance of Privately Rented Homes in England and Wales: Consultation Stage Impact Assessment**

[21] E3G modelling based on English Housing Survey 18-19 and Ofgem typical consumption values.

£1.75bn per year.[22] These savings would recur annually and likely be reinvested into local economies via increased consumer spending.

The certainty of demand that regulation provides would also boost investment in energy efficiency skills and supply chains that would put the industry in a strong position to deliver on the government's wider housing objectives for the 2030s.

Investment in energy efficiency also brings benefit to property owners as well as occupants. Research by BEIS and the University of Cambridge shows that houses rated EPC C typically sell for 6% more than EPC band D properties.[23] There is also evidence that energy efficiency upgrades which improve the comfort and affordability of properties improves their rentability. Helping to reduce tenants' energy bills also reduces the risk of rent arrears.[24]

The government's impact assessment found that most buy-to-let mortgages are interest only, and that the average upgrade cost of £4700 to fund the improvement would therefore be financeable at a cost of around £200 per year in interest payments.[25] This is significantly less than the £570 saving tenants would make on average in energy bill savings. Therefore, even if landlords choose to recover their costs through rent increases, tenants will benefit financially by several hundred pounds.[26] Many lenders also offer specialist green finance options which may have better terms, and green mortgages are coming onto the market with increasing regularity.[27] Some landlords will also be eligible for subsidy support through the Home Upgrade Grant and ECO.

The government's assessment of the policy did not conclude that rent increases were certain, but its pricing study found an upper limit of potential increases of

[22] E3G modelling based on English Housing Survey 18-19 and Ofgem typical consumption values.

[23] BEIS and the University of Cambridge, September 2020, **Do house prices and rents in the private sector reflect energy efficiency levels?**

[24] Property 118, August 2022, **Fears over winter rent arrears crisis as energy costs soar**

[25] BEIS, September 2020, **Improving the Energy Performance of Privately Rented Homes in England and Wales: Consultation Stage Impact Assessment**, using mortgage cost calculations with a 4% interest rate.

[26] Some rental agreements include energy and utility bills, although most do not. Green Rental Agreements are a new form of rental contract designed to allow landlords to recover part of their investments in energy efficiency or other green measures through a fixed charge covering rent and bills, allowing tenants and landlords to split the value of energy savings. The Green Finance Institute and British Property Federation have produced a template and guidance document for this kind of agreement, with pilots with institutional landlords planned.

[27] Green Finance Institute, May 2022, **Green Mortgages**

5%. Even this worst-case scenario would leave the average tenant £180 better off per year using the government's "high scenario" and current energy prices.[28]

Supportive tax incentives will help responsible landlords meet new standards

The private rented sector is a core and growing part of the UK housing market. The government's "fairer private rented sector" white paper acknowledges that a well-functioning sector for both tenants and landlords is essential to the overall health of the UK housing market.[29] As well as introducing and enforcing high standards and rights for renters, this means supporting landlords – the majority of whom meet their legal obligations and provide an important service – to do the right thing.

The government's proposal to cap the costs of meeting the new standards at £10,000 per property is the correct approach. The proposal's impact assessment estimates that the average cost incurred under this cap will be between £4,400 and £5,800.[30] However, recent tax changes have disincentivised property improvements for landlords. For example, the end of the wear and tear allowance in 2016 means that while like-for-like replacements are deductible from rental profits, improvements such as energy efficiency upgrades are not.[31]

Countries with large private rented sectors tend to have incentives or offer fiscal benefits that reduce the costs of owning and managing a rental property.[32] Germany and France both make allowances for improvements, and Denmark allows full deductibility from rental income for energy efficiency improvements.[33] Where private rented sectors are more tightly regulated, tax regimes related to investment and upkeep tend to be more generous.[34]

[28] BEIS, September 2020, **Improving the Energy Performance of Privately Rented Homes in England and Wales: Consultation Stage Impact Assessment**

[29] DLUHC, June 2022, **A fairer private rented sector**

[30] BEIS, September 2020, **Improving the Energy Performance of Privately Rented Homes in England and Wales: Consultation Stage Impact Assessment**

[31] HM Revenue and Customs, December 2015, **Reform of the wear and tear allowance**

[32] Whitehead, C., et al., September 2012, **The Private Rented Sector in the New Century: A Comparative Approach**

[33] Social Market Foundation, March 2022, **Where next for the private rented sector?**

[34] Institute for Public Policy Research, January 2019, **Sign on the dotted line? A new rental contract**

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There is evidence that tax deductibility could play an important role in making investments affordable and thereby incentivise early action. Research from the residential landlord association found that of 72% of landlords not planning to make investments to improve their property in the next two years would reconsider with a change to tax deductibility rules.[35]

Specifically, changing the rules to allow energy efficiency improvements to be offset against rental income – and therefore income tax – in the year in which they were made could help make investment significantly easier for landlords. The current system does not allow improvement costs to be deducted in the year they occur, but instead allows for capital gains tax deduction at the point of sale.[36] This may incentivise landlords to sell rather than provide longer tenancies and does not allow them to account for their costs fairly through the tax system in the year in which they actually occur.

By shifting deductibility from capital gains to income tax, the government would remove the existing incentive for landlords to sell up and would help smaller landlords by giving tax relief in the year of the actual expense.

Making this change would represent tax revenue foregone by the Treasury of £1.2bn to 2028.[37] The aggregate energy savings from upgrading the private rented stock currently rated below EPC C would be £1.75bn per year.[38] These savings recur annually, and a portion would be paid to the Treasury in the form of increased VAT receipts, lowering the net cost of the tax change. Given it could help pave the way to just under 3 million homes being upgraded to EPC C, this would represent excellent value for money for the government’s energy security, fuel poverty and net zero ambitions.[39]

The government should also introduce a national register of landlords, as it has previously indicated it would.[40] Such a register would make it significantly easier to enforce minimum energy efficiency standards, a responsibility of local

[35] National Landlords Association and Residential Landlords Association, 2020, **Budget 2020: A private rented sector that works for all**

[36] Joseph Rowntree Foundation, March 2018, **Using incentives to improve the private rented sector: three costed proposals**

[37] E3G modelling, based on methodology used in Joseph Rowntree Foundation, March 2018, **Using incentives to improve the private rented sector: three costed proposals** (pp. 19 – 23)

[38] E3G modelling, based on methodology used in Joseph Rowntree Foundation, March 2018, **Using incentives to improve the private rented sector: three costed proposals** (pp. 19 – 23)

[39] DLUHC, July 2022, **English Housing Survey: Private Rented Sector, 2020-21**

[40] The Times, 31 January 2022, **Levelling-up plans target rogue landlords in the private sector**

authorities. A national system would also likely reduce compliance costs for those landlords currently covered under the more piecemeal selective licensing schemes which some local areas have introduced.

Research in areas where selective licensing does exist has found it to be effective not only in enforcing housing standards, but in lowering the incidence of tenant behaviour of concern to landlords, such as anti-social behaviour.[41] The Welsh government has recently successfully introduced a landlord register.[42]

While beyond the scope of this briefing, we also encourage the government to continue progressing the reforms set out in the "fairer private rented sector" white paper that aim to give renters greater security.[43]

Reasonable adjustments could be made to the original proposals while retaining their objectives

In addition to the tax changes recommended above, the government could consider further adjustments to the proposals consulted on in 2021. For example, although the government found no regional differences in the cost of improving privately rented homes across England and Wales, there is regional variation in rental yield and property value. The government has not found evidence that this would create adverse impacts, but some observers have raised concerns about the cost of retrofit in areas with lower property values.

If this concern proved well-founded and led to problems with regulatory compliance or other unintended consequences, the government could consider whether a cost-cap adjustment should be made, following the example set in other housing policies, such as the Help to Buy Scheme which takes a differentiated approach across UK regions.[44] However, as many parts of the country with lower rental yields also suffer from worse levels of energy efficiency, any such adjustment would need to be carefully managed to avoid entrenching this relative gap in housing efficiency.[45]

[41] The Centre for Public Data, October 2021, **A national landlord register for England: how to make it work**

[42] Welsh Government, **Welsh Rent Smart Wales, Landlord Registration** [last accessed 09/12/22]

[43] DLUHC, June 2022, **A fairer private rented sector**

[44] GOV.UK, **Help to Buy: Equity Loan** [last accessed 09/12/22]

[45] House of Commons Library, 5 July 2022, **Energy efficiency of homes in the north of England**

Existing legislation makes provision for the government to set reasonable exemptions and cost caps. Therefore, there is nothing preventing the government from passing its proposed regulations through the Energy Bill and then consulting on differential regional approaches to cost-caps or introducing them later.

Given the government has not yet formally responded to a consultation that closed in January 2021, landlords and buy-to-let mortgage lenders are understandably concerned at the regulatory uncertainty hanging over the sector. Almost two years in which energy efficiency investment could have been underway have now elapsed. To reflect this, the government could consider adjusting its proposed timelines.

For example, the government could adopt a "worst first" policy by retaining the proposed regulatory timelines for properties rated EPC E but introducing a grace period for those rated EPC D such that new tenancies would need to be improved by 2027 and existing tenancies by 2030. This would remain in line with the government's legally binding fuel poverty target, and would still quickly deliver significant benefits worth hundreds of pounds per year to the 430,000 households living in properties rated EPC E.[46] With this approach, it would be vital for the government to also set binding regulatory timelines in law for EPC D properties, as this would encourage early action and ensure that landlords are incentivised to reach EPC C in one go rather than simply improving to EPC D.

Renters cannot afford the government to miss this legislative opportunity

The return of the Energy Bill is a golden opportunity for long overdue action to help renters with the cost of energy. The benefits to the economy and the government's wider objectives are clear. The government has a strong regulatory option ready to go, which has regulatory precedent, and which has been extensively tested with industry stakeholders. There are a range of minor adjustments and incentives that could be easily adopted if the government or Parliament deems them necessary. For the government's commitments on energy security, fuel poverty or net zero to be credible, energy efficiency regulation in the private rented sector is essential.

[46] DLUHC, July 2022, **English Housing Survey: Private Rented Sector, 2020-21**

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