Response to the APPG on the Private Rented Sector's Inquiry on
How to support energy efficiency improvements in private rental housing
From the Association of Residential Letting Agents (ARLA)
October 2015

Background:

1. The Association of Residential Lettings Agents (ARLA) was formed in 1981 as the professional and regulatory body for letting agents in the UK. Today ARLA is recognised by government, local authorities, consumer interest groups and the media as the leading professional body in the private rented sector.

2. In May 2009 ARLA became the first body in the letting and property management industry to introduce a licensing scheme for all members to promote the highest standards of practice in this important and growing sector of the property market.

3. ARLA members are governed by a Code of Practice providing a framework of ethical and professional standards, at a level far higher than the law demands. The Association has its own complaints and disciplinary procedures so that any dispute is dealt with efficiently and fairly. Members are also required to have Client Money Protection and belong to an independent redress scheme which can award financial redress for consumers where a member has failed to provide a service to the level required.

Inquiry Responses:

***Question*: The impact of recent policy developments on energy efficiency improvements in the private rented sector.**

4. For tenants, the April 2018 deadline for private rented properties to acquire an Energy Performance Certificate rating of E is good news as it will reduce bills in poorly insulated homes where many are paying too much to keep warm.

5. However, for landlords the news is mixed. More energy efficient properties do assist landlords. Maintenance costs are lower in energy efficient properties and tenants that do not have to pay significant sums of money to keep their homes at a comfortable temperature generally stay in properties longer, thus void periods are reduced.

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6. The Government's decision to end funding to the Green Deal Finance Company is disappointing and could mean that the Minimum Energy Performance Standard (MEPS) regulations may become impossible to implement. This is largely because the Green Deal allowed landlords to make their properties energy efficient at no upfront cost.

7. The Green Deal was the first energy efficiency scheme to overcome the 'Split Incentive'; where the landlord pays for the energy efficiency improvements and the tenant reaps the rewards of warmer properties and cheaper utility bills, but the landlord cannot recoup their costs because a more energy efficient property does not generate a higher rental income. This was particularly important as it is the landlords' responsibility to maintain and improve the fabric of the building and yet most of the previous schemes focused funding on the tenant who has no responsibility in this regard.

8. It is important that any landlords who paid for a Green Deal Assessment Report but hadn't lodged their application to the fund receive a refund as advertised.

9. Further, as a result of the Government's decision not to renew the Landlord Energy Savings Allowance (LESA), landlords will miss out on the opportunity to claim up to £1,500 per property in tax allowances each year for implementing energy efficiency improvements. This tax change, coupled with the removal of the 5% reduced rate of VAT as a result of the European Court of Justice ruling will significantly increase the on-costs for landlords wishing to undertake energy efficiency works.

10. In addition to the removal of specific taxation allowances for energy efficiency mentioned above, the changes outlined in the Finance Bill (which is currently before the House) to Mortgage Interest Relief and the withdrawal of the automatic 10% Wear and Tear Allowance places further financial constraints on landlords, many of whom are not cash-rich. The result is that the withdrawal of financial incentives to improve the energy efficiency of properties coupled with a lack of demand from tenants for more energy efficient properties and the fact that the MEPS will be almost entirely unenforceable means that the improvements hoped for in the energy efficiency of private rented properties are unlikely to become a reality.

11. Without the added financial assistance that schemes such as the Home Improvement Fund and Energy Company Obligation (to a lower extent), upgrading the energy efficiency of a property is out now of the reach of many landlords.

Question: What policies could be developed to support the sector within the Government's overall ambitions for household energy efficiency?

12. It should be standard practice to refund the cost (estimated to be between £60-120) of the EPC when landlords act upon one of the recommended 'lower cost' improvement measures.

13. Ideally the Department for Energy and Climate Change should reopen the Green Deal Investment fund. However, to ensure that it benefits the whole housing market, we think that any future funding should only be made available to the private rented and owner-occupied sectors.

14. If the fund is not reopened, the Government should introduce a new scheme that incentivises landlords to invest in improvements to make their property more energy efficient; for instance, tax benefits and interest-free loans to carry out required work. Funding options could also be staggered by a property's build date to incentivise landlords with older properties to seek funding first.

15. The vast amount of Government and energy company spending on energy efficiency has been spent in the social rented sector; running to tens of billions of pounds over the last decade. It is imperative that improving the energy efficiency of the 82% of properties in the private sector are now prioritised (both private rented and owner-occupied). Most industry bodies warned DECC when they were creating the Energy Company Obligations that unless there was specific funding for private properties, the vast majority of the funding would go into the social sector, as has happened with all government-backed energy efficiency schemes before. Unfortunately, DECC did not learn the lessons of history and the same happened again. We would strongly argue that all future Government and energy company funding be only available to private housing.

16. Due to the problem of the split incentive and that energy efficiency works are capital improvements that are unlikely to result in higher rents, landlords are unlikely to be able to recoup the capital outlay for energy efficiency improvements. Therefore, we would argue that landlords should be able to offset the costs of energy efficiency improvements against tax in the tax year in which they were incurred (rather than having to wait and recoup them as capital expenditure against Capital Gains Tax when the property is sold).

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This will go some way to assisting landlords with the costs of energy efficiency improvements.

17. We would also suggest that mortgage companies could offer relief and/or preferential rates to landlords who make/have made energy efficiency improvements to the property.

18. In addition, with the European Union looking into VAT regulations as a result of the recent court ruling, the UK Government should be lobbying the EU to allow reduced VAT on goods and services for energy efficiency improvements; including boilers and double-glazing as well as DIY sales. Consequently, landlords wanting to do the work themselves will be incentivised rather than penalised when trying to improve their properties.

19. Until tenants consider the whole costs of renting (rent plus bills) rather than merely looking at the basic rental figures, we will not see them actively seeking out more energy efficient properties. Therefore, in the absence of overarching Government regulation of the industry, we would urge other cities in the UK to adopt a regime akin to the London Rental Standard which actively promotes landlords and agents who offer good quality and well-managed properties.

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