



Response to 'ECO: Help to Heat' Consultation Document from the Association of Residential Letting Agents (ARLA)

August 2016

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.

Questions

Chapter 2 Purpose and structure of extension

Question 1 - Do you agree with our proposal to extend the current ECO by one year, whilst making improvements that transition to a longer-term fuel poverty obligation?

4. ARLA recognises the need to help vulnerable tenants get the benefits of energy efficiency improvements in private rented property. However, under the Energy Company Obligation (ECO) the private rented sector misses out on support. By focussing on the financial situation of individual tenants rather the property itself, once again, the funding is being directed toward the wrong person in a private rented property. Tenants have no responsibility for maintaining or improving the fabric of the building and therefore, as with every previous energy efficiency scheme, this scheme



will fail to have any discernible effect on the energy efficiency of private rented properties.

Question 2 – Do you agree with the proposal to re-balance the obligations for 2017-18; by increasing the Affordable Warmth Obligation by £1.84bn notional lifetime bill savings (provisional figure), increasing the Carbon Emission Reduction Obligation by 3.0 MtCO₂ (provisional figure), and not increasing the Carbon Saving Community Obligation?

5. The Government's plan may allow energy suppliers to focus on promoting energy efficiency in the most effective homes, but it ignores the harder to engage private rented sector. Until tenants consider the whole costs of renting, for instance rent plus their bills, rather than looking only at the basic rental figures, we will not see them actively seeking out more energy efficient properties.

Question 3 – Do you agree that the CSCO deadline should remain at 31 March 2017?

6. Regardless of the deadline date ARLA believes that the Government's plan must centre on the need to ensure that tenants are renting from an affordable, safe and well-maintained home with a good landlord. The Carbon Saving Community Obligation (CSCO) must focus more on the owner rather than the occupier if we are to improve the energy efficiency of properties in the private rented sector.

Question 4 – Do you agree that there should be no rural sub-obligation from April 2017?

7. ARLA believes that support for private rented property in rural areas must focus on the source of energy or fuel type that is being used. This should then be reflected in the Government's plan in order to serve these households appropriately.

Section 3 – Affordable Warmth targeting and household eligibility criteria

Question 5 - Do you agree with our proposals to introduce income thresholds for 2017-18 which take account of household composition for Tax Credits and Universal Credit?

8. The issue of paying energy bills and household costs should be raised by the Universal Credit Work Coach and built in to the Personal Budgeting Support or Alternative Payment Arrangement agreed between the Work Coach, tenant and landlord.
9. However, the Government's proposals to introduce income thresholds represents ARLA's argument that the measure will only solve fuel poverty in the short-term and

not necessarily improve the actual energy efficiency of private rented property. For instance, in order for private landlords to access Affordable Warmth funding, the tenant will need to be in the property from the day of the assessment until the day of the installation. If the eligible tenant moves out before the works are installed, the property will no longer be eligible under the Affordable Warmth criteria and the works will not be able to go ahead. Dependence on the financial circumstances of the tenants will create reluctance from landlords who will not wish to engage with an energy efficiency programme because they will need to expend significant personal time, effort and resources going through the process with the possibility that the tenant might leave before the works are carried out – which in turn will bring the programme to an end.

10. Once again, these proposals clearly demonstrate that the Government has not learned the lessons of why all previous energy efficiency schemes in the private rented sector have not worked and appears to be trying to re-create a scheme that has thus far failed five times in the hope that creating it for a sixth time might have a different result. It will not.

Question 6 - Do you agree with our proposal to adopt ten household composition types with relative income thresholds based on whether the household consists of a single person or a couple and whether they have one, two, three or four or more dependent children?

11. ARLA believes that Government policies should reflect the flexible and transient nature of the private rented sector. According to the English Housing Survey for 2013/14, as outlined in the January 2016 report by the London School of Economics 'Taking Stock', the figures show that a couple with a dependent child or children make up 23% of private rented sector tenants and a lone parent with a dependent child or children makes up 13% of private tenants.¹

Question 7 - Do you agree with our proposals to allow recipients of other eligible benefits (Income Support, Income-based Jobseeker's Allowance and Income-related Employment and Support Allowance) to continue to be eligible and to remove the additional sub-criteria in 2017?

12. We have nothing further to add other than our responses given to Questions five and six.

¹<http://www.lse.ac.uk/geographyAndEnvironment/research/london/docs/GRP12392---LSE-report-design-WE22.pdf>



Question 8 - Do you think we should amend the eligibility requirements so that those in receipt of Guarantee Credit in Pension Credit continue to be eligible under Affordable Warmth but those only in receipt of Savings Credit should only qualify through CER0 or if they meet the 'flexible eligibility' proposal?

13. ARLA believes that landlords should be incentivised financially to improve the energy efficiency of their properties. This is mainly because they do not benefit financially from the improvements themselves, only the tenants do.
14. In relation to eligibility requirements we would draw the Government's attention again to the English Housing survey 2013/2014 which states that only 7% of private tenants are one person aged 60 or over.²

Question 9 - Do you agree with the proposal to extend eligibility to social tenure households with an EPC rating of E, F or G for their home, and for no additional benefits criteria or income thresholds to be required?

15. The vast amount of Government and energy company spending on energy efficiency has been spent in the social rented sector. This has ran to tens of billions of pounds over the last decade. ARLA believes it is imperative that improving the energy efficiency of properties in the private sector are now prioritised.
16. Furthermore, most industry bodies warned the Department of Energy and Climate Change (DECC) when they were creating the ECO 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. In October 2014 the Government published an impact assessment on the future of the ECO and found that previously only 11% of ECO measures had gone towards the private rented sector.³ ARLA would strongly argue that all future Government and energy company funding be only available to private rented sector housing.

Question 10 - Do you agree an EPC would be an appropriate way of proving the efficiency banding of social housing, or whether alternative ways of evidencing may be sufficient in

²<http://www.lse.ac.uk/geographyAndEnvironment/research/london/docs/GRP12392---LSE-report-design-WEb2.pdf>

³https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/373650/ECO_IA_with_SoS_e-sigf_v2.pdf



certain cases? Do you think any additional assurance should be required? If so, please provide details.

17. ARLA would question the accuracy of Energy Performance Certificates (EPC) certainly in older homes which are not easily able to be made energy efficient due to their structural formation and age.

Question 11 - Do you agree that measures delivered in new build homes should not be eligible under ECO from 1 April 2017?

18. As outlined on page 17 of the Consultation Document, overall new build homes are built to a much higher standard and are more energy efficient. Therefore if it was 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 this would help the private rented sector.

Question 12 - Do you agree with the proposal to allow flexible eligibility? If so, what proportion of the 2017-18 Affordable Warmth obligation do you believe that suppliers should be able to deliver using this flexible eligibility route?

- a) 10%
- b) 20%
- c) Other

19. Here we would outline that 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.⁴

Question 13 - Do you consider that solid wall insulation for non-fuel poor private tenure homes should be included under flexible eligibility, as described above?

Please provide reasons, including views on whether this should be allowed for measure types other than solid wall insulation.

20. 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

⁴<http://www.arla.co.uk/media/1044384/energy-efficiency-inquiry-report.pdf>

be staggered by a property's build date to incentivise landlords with older properties to seek funding first.

Question 14 - Do you agree with the proposal to allow local authorities to determine whether some households are eligible through 'local authority declarations' in the way proposed?

21. The Government should take some simple steps to ensure the more proactive use by local authorities of their powers under the Housing Health & Rating System (HHSRS) to ensure the improvement of private rented sector properties that contain a Category 1 hazard of 'excess cold'.
22. Furthermore, whilst we acknowledge that the HHSRS cannot work as a mechanism for the mass roll-out of energy efficiency measures in the private rented sector, the HHSRS could play more of a role in determining properties that need work done to them.

Question 15 - Do you consider that schemes involving other intermediaries should be allowed, as described above, in addition to local authority declarations? Please provide reasons, including whether there are any viable alternatives that meet the policy intent.

23. ARLA feels that local authorities, landlords, letting agents and energy companies need to better co-ordinate their efforts to identify vulnerable tenants who will most benefit from energy efficiency. The Government should be working to bring these stakeholders together and to come up with new proposals.

Section 4. Eligible energy efficiency measures

Question 16 - Do you agree with the proposal aimed at limiting the delivery of qualifying gas boiler replacements (and not limiting other types of heating measure)? Please provide reasons and describe any preferred alternative proposal, if applicable.

24. Again, here, we would reiterate the need to incentivise landlords to carry out energy efficiency improvements on properties they own. As recently reported in Property Industry Eye, the vast majority of landlords still consider property rental to be a part-time activity, and most manage their portfolios as private individuals rather than as companies. For instance, the proportion of landlords managing two to four properties has risen from 17% to 30% and for about 90% of landlords, rent makes up under half of their total income.⁵

⁵<http://www.propertyindustryeye.com/most-private-landlords-are-part-timers-with-just-one-property/>

Question 17 - Do you agree that only measures installed after a specified date should count towards the Affordable Warmth minimum, and that date should be 1 July 2016?

Please provide reasons and describe any preferred alternative proposal, if applicable.

25. Schemes that are time and volume sensitive mean that landlords need to plan ahead and take advantage of any schemes before they expire. Therefore it is important that the Government make any deadlines as clear as possible and promote widely.

Question 18 - Do you agree with the proposal to in effect limit the delivery of qualifying gas boiler replacements at a level equivalent to 25,000 boilers under the ECO extension?

Please provide reasons and describe any preferred alternative proposal, if applicable.

26. ARLA fully appreciates that replacing an old, inefficient boiler with a new, efficient one makes a big difference. A more efficient boiler could mean an average saving of £340 a year, as well as a warmer, more comfortable home. We fully supported the Mayor of London's boiler replacement scheme where private landlords, or the agent that manages their property could gain £400 cashback when they replace an old, inefficient boiler provided that they met the scheme's requirements. Initiatives like this provide landlords with a financial incentive to improve their property.

Question 19 - Do you agree with our proposal not to impose new limits on the level of installation of the following measures?

- a) Heating controls
- b) First time central heating
- c) Non-gas qualifying boilers
- d) Non-qualifying boilers
- e) Electric storage heaters
- f) Renewable heating
- g) Heat networks

27. ARLA neither agrees nor disagrees with this proposal.

Question 20 - Do you have views on whether Government should take action to prevent shifting the balance of measures delivered and the potential for energy suppliers to receive disproportionate benefit under ECO from renewable heating supported by RHI payments? If so, what action should be taken?

28. ARLA believes that the Government must acknowledge that when a landlords makes energy efficiency improvements it is the tenants who reap the rewards through lower energy bills.

Question 21 - Do you consider that heat network schemes funded or part funded by the supplier obligation should be required to include arrangements for consumer protection? Please state your views, including suggestions for appropriate consumer protection arrangements.

29. We believe that any business or organisation carrying out installation work must have carried out appropriate training and be a registered installer, belong to a certification scheme or be a member of a competent persons scheme.

Question 22 - Do you agree with the proposal to allow insulation but not to allow boiler or other heating system replacements or repairs (of any fuel type) in social tenure properties, with the exception of first time central heating (including district heating) and renewable heat?

30. In addition to our response to Question 20, the making of energy efficient improvements to individual properties is more a problem for landlords in the private rented sector. This is because social landlords benefit from the economies of scale and can improve large swathes of their housing stock at a hugely reduced cost per property. This is also true for owner-occupiers who receive the savings on the energy efficiency improvements that they implement.

Question 23 - Do you agree that we should retain a solid wall minimum within the scheme?

31. If the scheme is to continue then we agree that the Government should retain a solid wall minimum within the scheme.

Question 24 -Do you agree that the solid wall minimum is set at the right level? Please provide reasons and, if applicable, any alternative preferred proposals. (Where you provide alternative proposals, please include the level you recommend and what else you would change as a consequence, noting the need to stay within the overall spending envelope.)

32. ARLA does not have an opinion on the whether the solid wall minimum is set at the right level.



Question 25 - Do you agree that an in-use factor of 15% should be applied to party wall insulation measures delivered under CERO after 31 March 2017?

33. Considering that the in-use factor was subject to an independent review and technical assessment as outlined on Page 29 of the Consultation Document, we think it is reasonable to apply a 15% in-use factor to party wall measures delivered under the CERO after 31 March 2017.

Question 26 -Do you agree that party wall insulation measures installed after 31 March 2017 should support secondary measures?

34. Where possible ARLA thinks that the options available to improve energy efficiency need to be as flexible as possible based on the individual needs of different property types.

Section 5 - Delivery and administration

Question 27- Do you agree that the requirement for measures to be recommended on either a GDAR or a CSR should be removed from 1 April 2017?

35. ARLA does not have an opinion on the whether the requirement for measures to be recommended on either GDAR or a CSR should be removed from 1 April 2017.

Question 28 - Do you have views on whether any alternative requirements should be introduced in order to provide consumer advice, or ensure technical suitability of a measure prior to its installation? If so, what are they?

36. Other than the views that we expressed in response to Questions 21 and 17 we do not have any further views on this matter.

Question 29 - Do you agree that from 1 April 2017 we should move to a system of deemed scoring, as described above, rather than the current bespoke RdSAP or SAP based property by property assessments? Please provide reasons, including details of any alternative proposals you would support, if applicable

37. ARLA has nothing further to add.



Question 30 - Do you agree that savings for district heating system measures should be calculated based on bespoke SAP or RdSAP assessments, rather than deemed scores?

38. ARLA has nothing further to add.

Question 31 - Do you agree that up to 5% of each supplier's measures should be granted automatic extensions for up to three months?

39. ARLA has nothing further to add.

Question 32 -Do you agree with removing the restriction on extensions where it is due to supplier administrative oversight?

40. ARLA has nothing further to add.

Question 33 - Do you agree that we should introduce a mechanism for the trading of obligations between licensed suppliers?

41. ARLA believes that the financial support mechanisms for energy efficiency improvements must be simple enough for both property owners and contractors to implement.

Question 34 -Do you agree that Ofgem E-Serve should approve trades, to ensure that energy suppliers can bear the consequences of non-compliance? Please provide reasons and, explain any alternative suggestions, if applicable?

42. Yes, ARLA agrees that trades should be approved by Ofgen E-Serve or another external body.

Question 35 - Do you agree that the version of PAS 2030 cited in the ECO regulations should be updated to refer to the most recent version, following the anticipated updates to PAS 2030? Please provide reasons.

43. ALRA has nothing further to add.

Question 36 - Do you agree that installation companies delivering measures which are referenced in PAS 2030 under the extension to ECO should be certified against the requirements set out in PAS 2030? Please provide reasons.

44. ARLA has nothing further to add.

Question 37 - Do you think there is value in collecting and publishing more information on ECO costs in the future? If you do, what information do you think should be collected and how should it be obtained?

45. ARLA thinks that more steps must be taken to increase awareness of responsibilities amongst both landlords and tenants. We feel that a central place for clear information on polices, funding streams and responsibilities of both parties is needed.

Question 38 - Do you agree that, with the exception of the Affordable Warmth minimum, the new scheme rules being proposed should be introduced for measures installed from 1 April 2017? Please provide reasons, including details of any particular rules that should be introduced earlier or later, if applicable.

46. ARLA has nothing further to add.

Question 39 - Government invites views on whether we should introduce any additional rules to incentivise greater delivery to areas with higher delivery costs? If so, please set out how this should work.

47. ARLA has nothing further to add.

Question 40 - Should a brokerage mechanism be continued? Please provide reasons and, if responded 'yes', what value do you think a brokerage mechanism could add in the future?

48. ARLA has nothing further to add.

Question 41 -If a brokerage mechanism continued in the future, what eligibility criteria and due diligence checks should be carried out to enable access to a range of organisations?

49. ARLA has nothing further to add.

Question 42 - In addition, should access for an individual organisation be reviewed for any reason (eg at certain intervals or for certain behaviours)? If 'yes', what should be considered as part of the review?

50. ARLA has nothing further to add.

Question 43 - Is brokerage a barrier to local delivery? Please provide reasons and, if 'yes', explain how it is a barrier and your recommendations (if applicable) for how we could remove the barrier(s) to improve local delivery under brokerage?

51. ARLA has nothing further to add.

Question 44 - Does the current performance rating system provide the assurance of quality and delivery needed? Please justify your response and, if 'no', what changes would you recommend?

52. ARLA has nothing further to add.

Question 45 - If brokerage continued, would you recommend any substantial changes to its design to better reflect the future fuel poverty focus? Please explain your view.

53. ARLA has nothing further to add.

Section 6 – Second set of reforms (2018-2022)

Question 46 - The Government invites views on the aspects of the future supplier obligation (eg measures, scoring, objectives) where a Scottish scheme could diverge from the GB-wide scheme without increasing the administration or policy costs unreasonably.

54. In relation to the future supplier obligation ARLA feels that it is important to note that renewables are the single largest contributor to electricity generation in Scotland. For instance, in 2015 renewable electricity generation in Scotland made up approximately 26% of total UK renewable generations.⁶ Therefore the measures, scoring and objectives of any supplier obligation should reflect the needs of households in Scotland and the capacity of the supplier.

Question 47 - When would you consider that differences between an English and Welsh scheme and a Scottish scheme could be detrimental to the operation and competition of the United Kingdom-wide energy market?

55. ARLA thinks that differences between an English and Welsh scheme and a Scottish scheme could have an impact on the UK's international obligations to meet energy efficiency targets. However, on the whole we think differing schemes operating in

⁶ <http://www.gov.scot/Topics/Business-Industry/Energy/Facts>

England and Wales and Scotland could mean that they meet more accurately the specific needs of households in different parts of the British Isles.

Question 48 - Do you believe there is any justification for changing the customer number threshold in the future obligation (2018 onwards)? Please provide specific reasons and evidence and, if you responded 'yes', describe any actions you recommend in relation to addressing the proportionally higher fixed costs that may be borne by smaller obligated suppliers.

56. ARLA has nothing further to add.

Question 49 - Do you believe there is any justification for changing the taper for newly obligated suppliers in the future obligation (2018 onwards)? Please provide specific reasons and evidence and, if you responded 'yes', describe how you recommend amending the taper.

57. ARLA has nothing further to add.

Question 50 - Under current and previous supplier obligations, are there barriers in scheme design inhibiting innovation in delivery models and technologies? If so, how should we design the scheme in order to overcome these barriers and incentivise the delivery of innovative products, technologies and delivery models in a future supplier obligation?

58. ARLA has nothing further to add.

Question 51 - The Government invites views on what specific improvements could be made to the design of the ECO scheme to facilitate administration and delivery.

59. ARLA knows that 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.

60. From 1 April 2018 there will be a requirement for any properties rented out in the private rented sector to normally have a minimum energy performance rating of E on an EPC. ARLA is disappointed with the Government's decision to end funding to the Green Deal Finance Company and it 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.



61. Furthermore, 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. As we have outlined throughout our response to this Consultation this is particularly important as it is the landlords' responsibility to maintain and improve the fabric of the building and yet most other schemes including ECO focus funding on the tenant who has no responsibility in this regard.