



Scottish Warm Rented Homes Coalition



A joint submission to the Private Rented Sector Strategy Group on the need for minimum energy efficiency standards for private rented housing in Scotland

19 November 2009

1. Summary

The social rented sector is currently required to bring its stock up to a National Home Energy Rating (NHER¹) of 5 by 2015. We propose this requirement be extended to encompass both the social rented and the private rented sectors. We also believe an 'escalator' should be applied to increase the minimum energy efficiency score in both sectors regularly thereafter.

This submission is supported by Age Concern Scotland, Association for the Conservation of Energy, Energy Action Scotland, Friends of the Earth Scotland, Help the Aged in Scotland, Oxfam Scotland, The Poverty Alliance and WWF Scotland.

2. Context

Scotland's homes account for a third of our greenhouse gas emissions². According to Government figures, just over a quarter of Scottish households were in fuel poverty³ in 2007⁴, while estimates from NGOs put the figure closer to one in three⁵. Official figures for 2008, due to be published very shortly, will give a more up-to-date picture of the situation. The Scottish Government has a *statutory duty* under the Climate Change (Scotland) Act 2009 to reduce greenhouse gas emissions by 42% by 2020, and to lift all Scots out of fuel poverty by 2016 under the Housing (Scotland) Act 2001. Meanwhile a recent review by ofgem estimated that average domestic fuel bills will increase by between 14% and 25% by 2020. To be clear therefore: the Scottish Government **MUST** reduce emissions from our housing stock by at least 42% by 2020 and **MUST** lift all Scots out of fuel poverty by 2016. The only issue up for debate is how this is achieved. The statutory objectives cannot, we believe, be achieved without substantial energy efficiency improvements to our building stock.

While existing efforts to improve the energy efficiency of our homes, including through the Carbon Emissions Reduction Target (CERT), the Energy Assistance Package and Home Insulation Scheme, are a welcome start, they lack the investment needed to achieve either the 2016 or the 2020 statutory targets. Indeed, by the Scottish Government's own admission,

*"There is a significant gap between current energy efficiency activity and what is needed in housing to contribute to 2020 climate change targets."*⁶

Meanwhile, the independent Scottish Fuel Poverty Forum report in 2008 recommended consideration of minimum energy efficiency standards at point of sale/rental⁷.

3. The case for taking action on the private rented sector

The case for taking action on energy efficiency in the Private Rented Sector (PRS) is

compelling. According to the latest Scottish House Condition Survey⁸, the private rented sector has the worst level of energy efficiency of all tenures: with an average National Home Energy Rating (NHER) of 5.6, compared to 7.2 in housing associations and housing co-ops. Meanwhile, nearly a fifth (17%) of dwellings in the private rented sector are rated 'poor' for energy efficiency (around 40,000 properties), compared to an average of 4% across all sectors. Levels of extreme fuel poverty are the highest in the private rented sector: 10%, compared to 4% in local authority stock.

It is not the case, as some have argued, that the PRS suffers from worse energy efficiency due to the housing types prevalent in this sector. The energy efficiency of the private rented sector is worse than other tenures, even for the same building types. For example, pre-1919 detached homes in the PRS have an average NHER of 2, while in the owner-occupied sector the average score is 3.5. In tenements the picture is similar: an average NHER in the PRS of 5.5 compared to NHER 6 for owner occupiers⁹.

Meanwhile, the private rented sector suffers from the 'split incentive' effect, described in the Scottish Government's energy efficiency action plan consultation thus:

*"Owners have limited incentive to ensure building fabric or installed appliances and equipment are energy efficient when they do not pay the bills, and occupiers have limited incentive to invest in a building that they do not own."*¹⁰

Achieving the 2016 fuel poverty targets and the 2020 carbon emissions target is not optional: they are set in law. 'Business as usual' is not delivering – the case for minimum energy efficiency standards for the PRS is unanswerable.

4. Why "single out" the private rented sector?

The private rented sector is not being "singled out": incentives and regulation already exist in other sectors, which are slowly succeeding in improving energy efficiency levels. For example, the social rented sector stock must achieve NHER 5 by 2015 under the Scottish Housing Quality Standard (SHQS)¹¹. Meanwhile, owner-occupiers have since October 2009 been eligible for interest-free energy efficiency loans from the Government. Anecdotal evidence suggests the loans fund is fast running out. Other sectors are already the subject of both regulation and incentives to improve energy efficiency standards: regulating for minimum energy efficiency standards in the PRS would be raising that sector to the standard of the social rented sector, not singling it out.

5. What incentives / regulations already exist in the PRS?

The PRS already benefits from a number of incentives to improve energy efficiency:

The Landlord Energy Saving Allowance (LESA) is a tax allowance that allows private sector landlords to claim up to £1,500 against tax every year against investment in energy saving in their properties. It has been available since 6 April 2004¹². The UK Treasury reports that 2,050 taxpayers claimed LESA in 2007-8, representing approximately 0.16% of private sector landlords¹³.

The Energy Saving Scotland Small Business Loans scheme will lend zero-interest loans of up to £100,000 to PRS landlords. It has been available to landlords since December 2008. Information on take-up levels is not yet available.

PRS properties must also, along with all domestic properties, comply with the tolerable standard, which has a very basic level of loft insulation. No cavity wall insulation or similarly effective measures are required.

As can be seen from paragraph 2 above, the impact of these measures to date appears to be limited: energy efficiency levels in the PRS continue to be significantly lower than in other sectors.

6. How could minimum standards in the PRS be implemented?

In the interests of parity with the social rented sector, we would suggest that the energy efficiency standards in the PRS be set in parallel with requirements under the SHQS. In other words, properties would be required to achieve NHER 5 by 2015. As a rough rule of thumb, tenements with a functioning central heating system (gas/oil/heat pump) are unlikely to achieve an NHER score lower than 5 while detached houses with a modern efficient central heating system and the recommended minimum loft insulation (270mmm) would be unlikely to fall below NHER 5.

However, since NHER 5 will not be sufficient to achieve fuel poverty and climate change targets, this standard should be escalated by one NHER point for both social and private rented sectors in parallel every 12-18 months until a minimum NHER of 8 (or higher if deemed appropriate for carbon emissions / fuel poverty reasons¹⁴) is achieved. This would allow landlords carrying out work prior to 2015 to benefit from the supplier obligation subsidy¹⁵, while those waiting until after 2015 would bear the full cost of any measures required to achieve the required NHER level. We do, however, envisage that the current Energy Saving Scotland Small Business Loans scheme would need to be considerably expanded to offer landlords zero-interest credit in order to carry out the required work. We accept that the repairing standard is perhaps not the best way to implement the minimum standard, since it requires tenants to report their landlord for non-compliance.

7. Why set the standard in terms of NHER?

NHER is a more accurate measure of energy performance than Standard Assessment Procedure (SAP) or reduced data Standard Assessment Procedure (rdSAP) – the latter being the methodology currently used to produce domestic energy performance certificates in Scotland. The SAP methodology has the disadvantage that it does not take climatic differences into account when measuring fuel bills and carbon emissions and can be inaccurate. Professionals who use both methodologies report that this inaccuracy can be as much as 25%. Since NHER is the methodology most to determine compliance with the Scottish Housing Quality Standard in the social rented sector, this would again deliver parity across sectors

8. Do you envisage any exemptions? What about tenements and ‘hard to treat’ properties?

It is likely there will need to be exemptions in certain circumstances – in some listed buildings or for certain buildings in conservation areas, for example.. That is not to say that the energy performance of such properties cannot be improved through appropriate and sympathetic measures such as loft insulation, draught proofing or a more efficient boiler. .

We would not envisage any exemption for tenements. Since the definition of ‘repair’ within the Tenements Act was amended by the Climate Change (Scotland) Act 2009 to include ‘installation of insulation’, if the majority of property owners in a tenement agree to such a measure, they can require its implementation.

Likewise we would not envisage any exemptions for ‘hard to treat’ properties: those in fuel poverty will now benefit from solid wall insulation and air source heat pumps under the Energy Assistance Package. Landlords will in any case be able to access zero-interest loans to fund these measures, as noted above. Calculations contained within the Scottish Government’s Energy Efficiency Action Plan suggest that in order to achieve carbon reduction target from

homes, 44% of solid walled homes will require insulation and 50% of properties that are technically suitable for biomass boilers will have installed them by 2020¹⁶. The consultation document also notes,

“The scale of the emission reductions needed means it is likely that almost all existing homes will require some energy efficiency improvements.”¹⁷

9. How could the standard be enforced?

Enforcement could be through expanding the existing landlord registration process to require, by 2015, a valid NHER certificate to be provided for each property leased out. It would also be prudent to change the legislation regarding energy performance certificates to allow NHER certificates as EPCs, to avoid landlords having to procure two separate certificates. Provision should also be made to deal with non-compliance.

If this enforcement route is taken, however, then it is essential that local authorities receive the required resources, in terms of training and staff time, to ensure adequate time to ensure enforcement. One way to do this would be to amend the Home Energy Conservation Act to set statutory targets for each local authority to improve the energy efficiency of the homes in their area.

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¹ The National Home Energy Rating (NHER) is the most accurate and comprehensive way of measuring the energy efficiency of homes. The rating is expressed on a scale of 0 to 10, where 10 represents the most energy efficient home.

Further info: <http://www.nher.co.uk/index.php>

² WWF Scotland (2008) *Carbon countdown for homes*, available online: http://assets.wwf.org.uk/downloads/carbon_homes_2.pdf

³ The Housing (Scotland) Act 2001 defines fuel poverty as “the inability to keep the home warm at affordable cost” This is usually taken to mean requiring more than 10% of disposable income to achieve a satisfactory heating level.

⁴ Scottish Government (2008a) *Scottish House Condition Survey Key findings 2007 – revision note*, available online:

<http://www.scotland.gov.uk/Publications/2008/11/26094921/RevisionNote>

⁵ See for example Energy Action Scotland website, accessed 27/4/09: “Since 2003 there have been steep price rises for gas, electricity, coal and oil, bringing the estimated figure for the number of Scottish households in fuel poverty in 2009 to around 850,000.”

http://www.eas.org.uk/index.php?page_id=83

⁶ Scottish Government (2009a) *Conserve and Save – A consultation on the energy efficiency action plan for Scotland*. page 69.

Available online: <http://www.scotland.gov.uk/Publications/2009/10/07160816>

⁷ Scottish Government (2008b) *Towards 2016 – The Future of Fuel Poverty Policy in Scotland, A Report by the Scottish Fuel Poverty Forum*.

Available online: <http://www.scotland.gov.uk/Publications/2008/10/09155649/0>

⁸ Scottish Government (2009b) *Revised Scottish House Condition Survey key findings 2007*

Available online: <http://www.scotland.gov.uk/Topics/Statistics/SHCS>

⁹ Scottish Government (2009a) *ibid* p.88

¹⁰ Scottish Government (2009a) *ibid* p.26

¹¹ The Scottish Housing Quality Standard (SHQS) sets out the standards that all homes in the social rented sector are expected to meet by 2015.

Further information: <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/16342/shqs>

¹² See http://www.direct.gov.uk/en/HomeAndCommunity/BuyingAndSellingYourHome/LettingYourHome/DG_175186

¹³ Treasury figure provided in private letter from Treasury official dated 16 November 2009 – copies available on request. EHCS estimates 1.2m private sector landlords in England in 2006; Scottish Government Review of the Private Rented Sector estimates 107,516 private sector landlords in Scotland. No estimates for Wales or Northern Ireland could be found.

¹⁴ NHER 8 is considered by academics and NGOs working in the field of fuel poverty to be the minimum required to “fuel poverty proof” a property. However, since this is dependent on incomes and fuel prices, which fluctuate, this NHER level will need to be kept under review.

¹⁵ The Carbon Emissions Reduction Target (CERT) (2008 – 2011) is the third three-year phase of a domestic energy supplier obligation and obligates all domestic energy suppliers with a customer base in excess of 50,000 customers to make savings in the amount of CO₂ emitted by householders.

Further information: http://www.decc.gov.uk/en/content/cms/what_we_do/consumers/saving_energy/cert/cert.aspx

¹⁶ Scottish Government (2009a) *ibid* Fig. 6.6 p.72

¹⁷ Scottish Government (2009a) *ibid*, p.60