Response to BEIS Consultation –
Improving home energy performance through lenders

February 2021

Introduction

The UK Green Building Council (UKGBC) is an industry network with a mission to radically improve the sustainability of the built environment, by transforming the way it is planned, designed, constructed, maintained and operated. As a charity with over 500 member organisations spanning the entire sector, we represent the voice of the industry's current and future leaders who are striving for transformational change.

Executive Summary

Among our members we have four of the 'Big Six' high street lenders, as well as other, more specialist lending institutions. In responding to this consultation we have sought their views – and those of our membership more broadly.

Both we and our lender members are absolutely committed to driving action to improve the energy performance and reduce the carbon emissions of the UK's housing stock. It is in this spirit that we welcome the opportunity to respond to this consultation. While wholeheartedly applauding the intention behind the proposals – and fully supporting a move towards disclosure and targets – we believe that further work needs to be done to address the risk of potential unintended consequences. In particular, care must be taken to avoid a two-tier market, where some homeowners who live in poorer-performing properties and/or have low income levels might be squeezed out of the mortgage market altogether or penalised with higher rates.

Responses to individual questions:

Question 1: Do you agree with the principle of all lenders publicly disclosing information on the energy performance of their portfolios?

Yes. We agree with the principle of disclosure of portfolio energy performance data. A number of lenders have already set themselves on a path to disclose and improve the energy performance of their portfolios. However, we believe that, where possible, the collection and reporting of this information should dovetail with, rather than duplicate, other financial and environmental reporting that lenders are required to undertake, including through PRA supervisory statements, climate change and green finance reporting in accordance with the FCA's PS 20/17, and Bank of England climate risk reporting.

It is also important to note that a large proportion of homes in lenders' portfolios do not have an EPC. This is especially the case where portfolios consist largely of older stock. BEIS will need to give further consideration to this issue as they move to develop the consultation proposals further.

Question 2: Do you agree with the proposed EPC information lenders will be required to collect? If you disagree, please explain why.

Yes, the proposals make sense, as most of the required information is available via the Open Data Communities website.

Question 3: Do you agree with the proposed disclosure information? If you think there is other information that would be useful to disclose that is not included in this proposal, or you do not agree with the proposal, please explain why.

Broadly yes. However, proposal 5 – that lenders disclose "the gross value of 'green' mortgage lending for energy performance works by EPC band" – will be difficult to implement in the absence of a clear definition of 'green lending' or ways of checking what lending is used for. It is also worth noting that 'green improvements' may well stray beyond energy efficiency improvements, e.g. switching heat sources or installing a charging point for an electric vehicle – neither of which would currently be reflected in an improved EPC. In this context, we would refer you to the work of our sister organisation, the World Green Building Council, and their project on standardising a green mortgage product: https://www.worldgbc.org/green-mortgages

This brings us on to the wider issue of the well-rehearsed limitations of EPCs. They neither reflect not incentivise low carbon heating solutions; they are only required to be updated every 10 years; there are wide variations in EPC quality; and they do not provide tailored, actionable advice for individual households. It is therefore important that BEIS move swiftly to implement the proposals in its EPC Action Plan. Alongside this, we believe that the Government should introduce Building Renovation Passports (BRPs). The Coalition for the Energy Efficiency of Buildings (of which UKBC is a member) is leading the development of a standardised framework for BRPs in the UK – and we would urge BEIS to support and build on this work without delay.

Question 4: Do you agree that the option to provide additional commentary alongside disclosures would be useful? If not, please explain why, including any alternative proposals.

Yes. Specifically, to address the issue of the varying age of lenders' portfolios, it will be important for lenders to be able to report on the age bands of properties within their portfolio, as older portfolios are highly likely to have lower EPC ratings. This will be particularly pertinent for lenders with a strong regional presence. Lenders would also value the opportunity to explain any modelling they have done to plug the information gap in the case of properties without EPCs.

Question 5: Do you agree with the proposal that all lenders, irrespective of market share, be required to publish energy performance data on their websites as well as on GOV.UK aligned to annual reporting deadlines? If not, please explain why.

Yes. This will ensure a level playing field for all lenders. If some lenders are left out of the scheme, they might derive an unfair competitive advantage. Furthermore, if the aim of these proposals is to drive greater householder awareness of and action on energy efficiency, then it is important to avoid a situation where some lenders in the market are essentially able to ignore the climate change agenda. Nevertheless we recognise that for smaller lenders these proposals may be disproportionately onerous and costly, so it is important that they have the necessary support and guidance from Government. For instance, it may be worth considering a longer lead-in time for small lenders.

Question 6: Do you agree with the proposal that government use the disclosure information to publish 'league tables' of lenders? If not, please explain why.

We are broadly supportive of the publication of comparative data. However, care needs to be taken to ensure that the right things are being measured and reported on. We have already highlighted the fact that lenders' legacy portfolios may differ widely, and it is very important to ensure that, in an attempt to 'climb up the rankings', lenders do not take the easy way out and simply withdraw from poorer-performing parts of the market. It might therefore be better to rank lenders on the basis of the year-on-year improvements in their stock, rather than on the absolute performance of their portfolio at a given moment in time. In addition, different lenders will have different proportions of properties without EPCs in their stock – and it is important that this does not skew the overall picture. In general, it is important that the criteria for ranking are clear, transparent and informed by the industry, with measures in place to mitigate the risk of data manipulation.

Question 7: Do you agree that properties financed by a Buy-to-Let mortgage should be included in the scope of the policies proposed in this consultation? If not, please explain why, including any alternative suggestions.

Yes. Buy-to-let properties constitute a significant segment of the housing market, so it is important that they are included.

Question 8: Do you agree with the proposed trajectory to mandatory disclosure? If not, please outline the reasons why.

Yes. We support mandatory disclosure and agree with the proposed timescale. However, it is important that the timescale be confirmed as soon as possible to give clarity to the industry as to what will be expected and when.

Question 9: Do you agree with the proposal that disclosure information be subject to spot check audits proportional to the size of the lending portfolio? If not, please explain why, including any alternative proposals.

Yes – the majority of our relevant members support the introduction of an external auditing process.

Question 10: If applicable, is your organisation likely to sign up to a system of voluntary targets? If not, please outline the reasons why.

As UKGBC is not a lender, this question is not directly applicable to us. However, it is worth noting that a majority of our relevant members say that they would sign up to voluntary targets. Indeed many are already moving in this direction, with some already planning to disclose EPC ratings in their annual reports.

Question 11: Do you agree with our estimate that up to 80% of mortgaged stock would fall within scope during the target period? Please provide evidence where available.

We are unable to give a definitive answer to this question. The consultation rightly identifies that a large number of properties are refinanced each year – either by switching to a new product with an existing lender or remortgaging with another lender. However, as there is currently no requirement on a householder to procure an EPC at either of these points, it is impossible to predict whether the 80% figure mentioned in the consultation would actually be reached.

Question 12: Do you agree the voluntary target should be set at a portfolio average of EPC Band C by 2030? If not, please outline the reason why.

Broadly yes. However, as already noted, there are good reasons why some portfolios will struggle to meet this target, for example where a lender's operations are primarily located in an area with an unusually large number of poorer-performing properties. It is important to remember that, while lenders can encourage borrowers to improve their properties – through advice and the provision of attractive finance – they cannot require them to do so.

For these reasons, it is vital that the proposed obligations on lenders form part of a comprehensive suite of policies to drive up consumer demand. These should include grants and help-to-retrofit schemes; the roll-out of Building Renovation Passports; minimum energy efficiency standards for owner-occupied households; incentives such as variable rates of Stamp Duty; and changes to the VAT regime to (a) cut the labour element of VAT to 5% on repair and renovation works and (b) restore the old 5% rate on the installation of energy-saving materials.

Question 13: Do you think that a revised EPC should be required to demonstrate improvements in energy performance? If not, what alternatives should be explored?

It is clearly the case that a revised EPC is the best way of demonstrating improvements (with the already noted caveat around the current inability of the EPC to reward low carbon heating solutions). However, consideration needs to be given when fine-tuning the policy proposals to the possible deterrent effect upon consumers of requiring a revised EPC.

Question 14: Do you agree that an assumed maximum spend for improvement works should be set at £10,000? If you do not agree, please specify what you believe would be the most appropriate level to set the threshold, providing evidence to support your views where possible.

We struggle to understand the conceptual underpinning for an assumed maximum spend. Since lenders have no powers to *require* borrowers to make energy efficiency improvements, how can they specify any level of spending, large or small? It will be down to the borrower as to whether they wish to spend less than £10,000 or considerably more (and to the lender to make the appropriate affordability assessment). We would urge BEIS to give further thought to this proposal.

Question 15: Should spend from April 2021 onwards count towards the £10,000 assumed maximum spend on improvements? If you believe an alternative date would be more effective, please set out the reasons why.

No response.

Question 16: What actions could the government take to incentivise the lenders to sign up to a voluntary target? Please provide evidence to support your answer where possible.

As per our response to Q. 12, a comprehensive range of policies and programmes is required to drive up consumer demand. Beyond this, it is important that a clear timeline for the introduction of a mandatory target is introduced as soon as possible to encourage early action.

On the specific point about grants, it is imperative that the Government announce as soon as possible what will follow the Green Homes Grant scheme after April 2022. It should pave the way for a properly funded, local authority-led, long-term energy efficiency programme. An extra £1.8bn of public funding is needed every year between now and 2030, most of it directed at low income homes.

In addition, the Government could look to support homeowners with the cost of EPC assessments in order to drive widespread adoption. And finally, it should act to ensure that the Open Data Communities database is updated much more frequently than currently.

Question 17: Do you agree government should consider the option of setting a mandatory improvement target, should insufficient progress be made under a voluntary scheme?

Broadly yes, as this would create a level playing field across the industry. However, see our response to Q. 12 about the need to ensure that lenders in areas with a poorer-performing housing stock are not unfairly penalised. See also our response to Q. 6 to the effect that it might therefore be better to rank lenders on the basis of the year-on-year improvements in their stock, rather than on the absolute performance of their portfolio at a given moment in time.

More generally, any target needs to be constructed in such a way that it does not simply drive lenders to stop lending to poor-performing properties, creating a system in which those in lower-performing homes struggle to refinance (creating new mortgage prisoners) or first-time buyers are unable to find an affordable property that lenders will finance.

Question 18: Do you agree with our proposed approach to the penalty regime? If not, please explain why, including any alternative proposals.

This very much depends on what 'failures' are intended to be penalised. At the risk of repeating ourselves, some portfolios will be harder to improve than others; and it would be entirely counter-productive if the prospect of penalties led some lenders to cease lending to poorer-performing properties or in areas with a greater preponderance of low income customers.

Question 19: What public tools could be used to calculate forgone emissions savings so that lenders can assess their own liabilities?

No response.

Question 20: Do you agree that the money collected from penalties be used to fund energy performance improvements? Please provide evidence to support your answer.

Yes. In the event that penalties are introduced, it makes sense for any monies collected to be used to improve the energy efficiency and drive the more rapid decarbonisation of the UK's homes.

Question 21: Do you think that only those lenders that are on a trajectory to meet their target should benefit from these funds?

We do not believe that the monies in any penalty pot should be recycled back to lenders. It is for the Government, not lenders, to make decisions about the most appropriate deployment of energy efficiency funding. A system akin to the Ofgem fines on energy suppliers could be considered.

Question 22: Do you agree that lenders below a certain value or size threshold should benefit from certain derogations to a mandatory target? If so, what form should these take and how can we avoid creating any policy loopholes?

No. As per our response to Q. 5, it is important that there is a level playing field across the industry. Without such a level playing field, lenders outside the scheme might benefit from an unfair competitive advantage. It will nevertheless be important for BEIS to consult with smaller lenders as to what further support they may need to meet targets.

Question 23: Do you agree with the proposed alternative option of a mandatory target of a portfolio average of EPC Band C by 2030 from the start of the policy? If you disagree, please explain why, highlighting any alternative target you think would be appropriate.

No. As is clear from our earlier responses, there are still too many questions about the nuts and bolts of the policy design that are yet to be satisfactorily answered. It is important that these are ironed out before moving towards the introduction of a mandatory target.

Question 24: These policy proposals rely on the information provided by the EPC. Are there any impacts of data collection using EPCs that we have not considered? If so, how could these be managed effectively by lenders?

As noted in the consultation document, the current Government commitment is to update the Open Data Communities database two to four times per year. At the time of writing, the database is only up-to-date as at 20 September 2020. The data need to be updated much more frequently to be of real use to lenders. We suggest that the Government act swiftly to make these data available on a near-live basis.

Question 25: What are your views on the likely impacts of requiring an increase in the EPC coverage of portfolios on: a) lenders; b) consumers; and c) EPC assessors?

Lenders

If only some lenders start to require the production of EPCs at the point of remortgage or product transfer, then consumers may be tempted to go elsewhere. An alternative would be for the Government to amend the Energy Performance of Buildings (England & Wales) Regulations 2012 to extend the requirement for EPCs to other trigger points beyond sale and rental. Another option, as already mentioned, would be for the Government to support homeowners with the procurement of EPC assessments in order to create mass-scale roll-out.

Consumers

Any requirement to obtain an EPC at other points than at sale or rental would obviously place an additional financial burden on consumers. It is difficult to say with any certainty whether this additional cost would act as a deterrent. Such a requirement would also mean that remortgages or product transfers would be less speedy than currently – though if it were a requirement across the board, consumers would almost certainly learn to weather it.

EPC assessors

Our understanding is that, although there would be an increased demand for assessors, the industry is more than able to scale up to deliver the necessary levels of activity.

Question 26: How can we ensure the effective transition of data between lenders when consumers change mortgage providers?

Since EPC data are publicly available, we do not believe there is a need for lenders to transfer data between one another.

Question 27: Are there any additional ways in which government or lenders could raise consumer awareness of their EPC data and how to improve the energy performance of their homes?

As we all know, there are currently low levels of awareness on the part of householders about the energy performance of their homes. The widespread introduction and roll-out of Building Renovation Passports would play a key role in reversing this. In Germany, where BRPs originated, they provide a bespoke guide to homeowners and installers, showing how deep renovation can be achieved in stages that avoid or reduce costs. They also highlight key dates for Government objectives and upcoming regulation, as well as available incentives and finance offerings. Crucially they set out the appropriate sequencing of improvements in order to avoid unintended consequences. All in all, they bring the retrofit journey 'alive' for householders.

Please also see our response to Q. 12 on the need for a comprehensive suite of policies to increase consumer awareness and demand for energy efficiency improvements.

Many lenders are already undertaking campaigns to encourage homeowners to improve the energy performance of their property. Further action from Government as described above will serve to underpin these efforts and make them more successful.

Question 28: Are there any ways in which lenders could help to encourage the installation of smart meters in the homes of those to whom they lend?

We believe that the responsibility for encouraging the installation of smart meters rests primarily with Government and energy providers. Lenders could have a limited role in reinforcing the benefit of smart meters in their communications with borrowers from time to time.

Question 29: Should works carried out to comply with these policies require that mortgagors choose a TrustMark approved provider or installer?

Yes, in principle, as this would provide both lenders and borrowers with the necessary quality assurances. However, we have concerns that to date relatively few installers have become TrustMark registered suppliers, which we believe is in no small part due to the significant costs attached to registering for each separate energy efficiency measure under PAS 2030. We believe that the Government should explore other options for accrediting smaller builders. For example, the Federation of Master Builders could introduce an enhanced membership programme which is accompanied by training. Alternatively, a retrofit coordinator could sign their work off in accordance with PAS 2035.

Question 30: We understand that there are mortgagors who will not be able to self-fund or borrow. Do you have any evidence that indicates what proportion of the mortgage market these mortgagors represent? Please provide as much detail as you can.

No response.

Question 31: Do you agree that those mortgagors unable to self-fund or borrow to make energy performance improvements should be exempt from inclusion in a lender's improvement target?

Given that lenders' affordability calculations are not uniform across the industry, it would be difficult to create an exemptions process that was equitable across the board. It is also the case that mortgagors' financial positions can change quite quickly, as the current COVID crisis has starkly demonstrated. More fundamentally, we question whether simply excluding certain households from the policy would really help deliver on its wider aims. It may therefore be better to require lenders to highlight in their reports the properties below Band C they are currently unable to extend borrowing to.

Question 32: How do you think exemptions on the basis of affordability should be assessed?

If an exemption on the basis of affordability is introduced, then obvious criteria would include:

- customers with high loan-to-value (LTV) ratios; and
- properties where reaching an EPC of C would cost more than a set figure.

Question 33: What other methods of protecting fuel poor mortgagors should the government consider in designing its proposals? Please provide evidence to support your answer where possible.

In our responses to Qs. 6 and 17, we have already highlighted the risk of a two-tier market, in which households who live in poorer-performing properties and/or have low income levels might be squeezed out of the mortgage market altogether or penalised with higher rates. In our response to Q. 6 we have also suggested that, rather than simply excluding such households from an overall target, lenders be required to be report on portfolio improvements rather than average performance.

Ultimately the responsibility for alleviating fuel poverty rests with the Government, which is currently not on course to meet its statutory fuel poverty obligations. It is imperative, therefore, that the forthcoming updated Fuel Poverty Strategy for England announce increased funding to meet the 2020 Band E fuel poverty milestone (which has technically already been missed), the 2025 Band D milestone and the 2030 Band C target. The Committee on Fuel Poverty have said that the total funding shortfall to meet all three is £13.7bn.

It is also imperative that the fourth round of the Energy Company Obligation continue to focus on installing energy efficiency improvements in those households most in need.

Question 34: Do you support the idea of lenders recommending referrals to energy suppliers under a future ECO scheme?

Lenders could indeed play a limited additional role in raising borrowers' awareness of the ECO scheme.

Question 35: Are there any impacts on the protected groups that we have not considered?

No response.

Question 36: We wish to include leasehold properties in the scope of these proposals in order that their owners or tenants may benefit from energy improvement works. How do you think the government should act to ensure that leasehold properties with a mortgage are captured by these policies, while acknowledging the challenges that need to be overcome?

We agree that leasehold properties should be included within the scope of these proposals, as they account for around a fifth of all homes. However, given that leaseholders' ability to make improvements under the terms of their lease will differ on a case-by-case basis, it will be difficult to construct an exemptions framework – or set of guiding principles – that covers every eventuality. This proposal therefore needs further thought.

An alternative would be to strip out leasehold properties into a separate report, reflecting the distinct challenges that leasing arrangements can pose.

Question 37: How can we ensure that we protect groups such as first-time buyers from being disproportionately penalised?

See our responses to Qs 6 and 31. In addition, the Government could act to support first-time buyers with targeted grants or Government-backed guarantees for lending.

Question 38: Are there other impacts these policies could have on mortgage processes that we have not considered? How do we ensure that intermediaries, such as brokers, have access to the information necessary to advise consumers?

The consultation rightly identifies that brokers are a key part of the customer journey and as such will need access to EPCs at the time of the mortgage application. Additionally, assuming that lenders develop product ranges that vary according to EPC band, this will need to be factored into search criteria on price comparison websites, lender mortgage calculators and broker sourcing systems.

Question 39: How can we ensure that our policies do not disincentivise lending to poor performing properties?

As already noted, this is by far our biggest concern in relation to these policy proposals. We have suggested various ways of mitigating this concern in our responses to Qs. 6 and 31. However, it is vital that BEIS do further detailed thinking on this issue in close consultation with all relevant stakeholders.

Question 40: How might these policies impact on house prices and households' ability to borrow in the market? What could the government do to mitigate any unintended impacts on households?

The consultation suggests that in the longer term energy inefficient properties may become cheaper as Government policy starts to mean that a value is placed on energy efficiency right across the homebuying market. This may well be true, but we are concerned that in the short term worse rates will be offered to mortgagors of such properties and that in some cases lending will cease to be available at all. It is also worth noting that being able to buy an energy inefficient property more cheaply is something of a hollow victory, as higher running costs over time may well cancel out the apparent advantage of a cheaper purchase price.

For our suggestions for addressing these issues, see our responses to Qs. 6 and 31.

Question 41: How might these policies negatively or positively impact on competition and lenders' ability to operate in the housing and wider market? What could the government do to mitigate any negative impacts?

We have already expressed our view that the best way of ensuring a level playing field and fair competition within the market is for all lenders to be included within the scope of the proposals. However, it will be important to ensure that smaller and/or regional lenders who may be less able to alter the EPC profile of their portfolio are not unfairly penalised. See our earlier responses for suggestions for mitigating negative impacts.

On a more positive note, we would anticipate that these proposals will drive higher levels of innovation in the market for green lending products. This would certainly be the case if these proposals were combined with the comprehensive suite of policies already outlined, including regulation and incentives such as variable stamp duty rates and VAT adjustments.

Question 42: What costs would compliance with these policies likely generate for lenders? Please provide an estimate of these costs where possible, including evidence to support your answer.

Individual lenders will be better placed than we are to answer this question.

Question 43: Do you think a regulatory body should be responsible for the mandatory policies in this consultation? If so, what form do you think this body should take?

Yes, but it is neither necessary nor desirable to set up a new regulatory body. The FCA is probably the most sensible option.

Question 44: Do you think that the government should introduce a requirement on lenders to check that privately rented properties comply with the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015?

Some lenders already check that landlords taking out a buy-to-let mortgage comply with regulatory requirements, including the current MEES requirement of a minimum EPC E rating. It makes sense for this practice to be required across the board. However, we believe it would be inappropriate to place an additional obligation on lenders to report non-compliant landlords to the relevant enforcement authority. A national landlords' register – which we have long advocated – would be the most appropriate tool for driving the higher levels of compliance and enforcement that we would all like to see.

Question 45: Do you think it would be sensible for these proposals, for example annual disclosure of portfolio-wide EPC information, to be applied to smaller non-domestic buildings that require similar energy performance upgrades to homes?

No response.

Question 46: Should a fabric first approach be built into the preferred, voluntary, target option? If yes, how should such an approach best be implemented?

No. While we wholeheartedly support a fabric first approach, it is not for lenders to be advising householders on the individual energy saving measures that are most appropriate for their home. That is the job of a retrofit assessor or retrofit coordinator. As previously noted, however, Building Renovation Passports would give householders a hugely enhanced understanding of the measures that are appropriate for their home and the optimum sequence for their installation.

Question 47: What are your views on how we could tighten standards to drive greater carbon savings? Do you have views on introducing a dual metric, an alternative carbon target, or any other suggestions?

While it is vital to drive both greater energy efficiency and carbon savings in the UK's housing stock, we share the reservations outlined in the consultation document about adding a carbon-saving metric into the proposed target, not least because of the cost implications for borrowers and the increased risk of creating a market in which those homeowners most in need of improving their homes will find it even harder to access borrowing. We would, however, be happy to be involved in further discussions with BEIS about whether there is a way to modify the proposals so as to drive carbon savings without at the same time swallowing up the bill savings that will be necessary to support additional borrowing.

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