



Requiring Energy Performance  
Certificates (EPCs) for short term holiday lets  
**Impact Assessment**

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## Summary: Intervention & Options

**Department /Agency:**  
**Communities and Local  
Government**

**Title:**  
**Impact Assessment: Requiring Energy Performance  
Certificates (EPCs) for short term holiday lets**

**Stage:** Consultation

**Version:** 1

**Date:** 2 March 2010

**Related Publications:** **Consultation Paper: Extending the scope of Energy Performance Certificates and Making Better Use of Energy Performance Data**

**Available to view or download at:**

<http://www.communities.gov.uk>

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**What is the problem under consideration? Why is government intervention necessary?**

The market can fail to deliver sufficient investment in energy saving measures in buildings for several reasons including the external costs of CO<sub>2</sub> emissions from buildings are not paid for by those who own or occupy buildings and some landlords may be unaware of many of the energy efficiency measures available and what the cost-effective improvements that could be made to a property are. As the owners of holiday lets usually pay the fuel bills in the property they let out, they have an incentive to make improvements and with the right information could make an impact on reducing carbon emissions.

Energy efficiency measures are not being implemented as quickly and widely as necessary in order to reduce carbon in line with targets in the [Climate Change Act](#).

**What are the policy objectives and the intended effects?**

The policy objective is to make it mandatory for dwellings used for short periods of holiday occupation to obtain an EPC.

The extension of EPCs to holiday lets is being proposed because it will improve awareness of energy efficiency, giving the property owner and the public more information about the energy performance of the property. If recommendations in the EPC are taken up this will lead to lower utility bills for the property owner and a reduction in CO<sub>2</sub> emissions.

**What policy options have been considered? Please justify any preferred option.**

Two main policy options have been considered:

Do nothing; and

Amend the guidance so that it provides that EPCs are required for short term holiday lets.

The preferred option is Option 2, as stated above there are a number of benefits to extending EPCs to short term holiday lets.

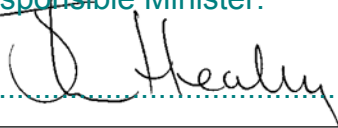
When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? **Error! Not a valid bookmark self-reference.** The policy will be reviewed by discussions with stakeholders in the sector.

We are about to undertake research to see what the effect of introducing EPCs has been in terms of behaviour change and take-up of the recommendations in EPCs, this research will be completed by the end of 2010.

**Ministerial Sign-off For Consultation Stage Impact Assessments:**

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible Minister:



.....Date: 26 February 2010

## Summary: Analysis & Evidence

<b>Policy Option: 2</b>	<b>Description: Require EPCs for short term holiday lets when they are rented out.</b>
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<b>C O S T S</b>	<b>ANNUAL COSTS</b>	<p><b>Description and scale of key monetised costs by 'main affected groups'</b></p> <p>The cost of obtaining an EPC for a single property is approximately £75 including VAT.</p> <p>There are between 55,000 – 70,000 dwellings that are short term holiday lets so an average of 62,500 was used for the purposes of the calculations.</p> <p>The below figure represents the total costs of obtaining EPCs once every ten years over a 30 year period.</p>			
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;"><b>One-off</b></td> <td style="text-align: center;"><b>Yrs</b></td> </tr> <tr> <td style="text-align: center;">£</td> <td></td> </tr> </table>		<b>One-off</b>	<b>Yrs</b>	£
	<b>One-off</b>	<b>Yrs</b>			
	£				
<p><b>Average Annual Cost</b> (excluding one-off)</p>					
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">£ 0.35M</td> <td style="text-align: center;">30</td> </tr> </table>	£ 0.35M	30	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;"><b>Total Cost (PV)</b></td> <td style="text-align: center;"><b>£ 10.4 M</b></td> </tr> </table>	<b>Total Cost (PV)</b>	<b>£ 10.4 M</b>
£ 0.35M	30				
<b>Total Cost (PV)</b>	<b>£ 10.4 M</b>				
<p><b>Other key non-monetised costs by 'main affected groups'</b></p> <p>Every building is designed and operated differently and will require a different set of energy efficiency improvements. The cost of carrying out the energy efficiency improvement projects (capital costs) have not been included in the above monetised cost figures.</p>					

<b>B E N E F I T S</b>	<b>ANNUAL BENEFITS</b>	<p><b>Description and scale of key monetised benefits by 'main affected groups'</b></p> <p>If the increase in the number of EPCs leads to an increase in the implementation of energy efficiency measures then the monetised benefits of getting an EPC include:</p> <ol style="list-style-type: none"> <li>1. Reduced fuel bills (gas and electricity)</li> <li>2. Reduction in carbon emissions</li> </ol> <p>With the assumptions used in the analysis we estimate total PV benefits of £15.7m including the cost savings from fuel bills (£11.6m) and carbon reductions (£4.1m).</p> <p>It is important to note that these benefits are gross. The costs of implementing the energy efficiency measures that produce these benefits have not been estimated in the above costs or netted off the benefits total.</p>			
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	£				
<p><b>Average Annual Benefit</b> (excluding one-off)</p>					
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">£ 0.5M</td> <td style="text-align: center;">30</td> </tr> </table>	£ 0.5M	30	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;"><b>Total Benefit (PV)</b></td> <td style="text-align: center;"><b>£ 15.7 M</b></td> </tr> </table>	<b>Total Benefit (PV)</b>	<b>£ 15.7 M</b>
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<b>Total Benefit (PV)</b>	<b>£ 15.7 M</b>				
<p><b>Other key non-monetised benefits by 'main affected groups'</b></p> <p>Non monetary benefits include: improving awareness of energy efficiency; increasing transparency and providing information to the public about the energy performance of buildings, and; if a property has a high energy efficiency rating, this could potentially create lower turnover rates and higher rents for the landlord.</p>					

### Key Assumptions/Sensitivities/Risks

For the benefits we assume: that 20% of those who obtain an EPC implement some of the recommendations; and for those who take-up the recommendations results in a fuel saving of 5%

For the net benefit range below the % of those who obtain an EPC and implement some recommendations varies from 10% to 30%.

A risk is that owners of holiday lets obtain an EPC but don't implement any of the recommendations required to reduce fuel bills and save on carbon.

Price Base Year 2009	Time Period Years 30	<b>Net Benefit Range (NPV)</b> <b>£ -2.5M to 13.6M</b>	<b>NET BENEFIT (NPV Best estimate)</b> <b>£ 5.3M</b>
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What is the geographic coverage of the policy/option?		England and Wales		
On what date will the policy be implemented?		TBA		
Which organisation(s) will enforce the policy?		LWMAs		
What is the total annual cost of enforcement for these organisations?		£		
Does enforcement comply with Hampton principles?				
Will implementation go beyond minimum EU requirements?		No		
What is the value of the proposed offsetting measure per year?		£		
What is the value of changes in greenhouse gas emissions?		£		
Will the proposal have a significant impact on competition?		Yes/No		
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	N/A	N/A	N/A	N/A

<b>Impact on Admin Burdens Baseline (2005 Prices)</b>				(Increase -
Increase of	£	Decrease	£	<b>Net Impact</b>
		of		£

Key: **Annual costs and benefits: Constant Prices** (Net) Present Value

### Rationale for Government Intervention

The [Climate Change Act](#) sets out our commitment to reduce overall carbon emissions by at least 80% by 2050. Buildings account for almost 50% of the UK's carbon emissions, and 75% of the housing stock in 2050 is already built. We set out in the HESS consultation document in February 2009 our approach and ambitious milestones for reducing carbon emissions from domestic properties and to increase the proportion of renewable heat sources:

- by 2015, all lofts and cavities to be insulated, and around 400,000 homes per year receiving a whole house package of measures;
- by 2020, for up to 7 million homes (and 1.8million homes per year) to have the offer of 'whole house' packages, and all homes to have smart meters;
- by 2030, for all homes and other buildings to have received a package that covers all the cost-effective measures available; and
- by 2050, for emissions from existing buildings to be as close to zero as possible.

To meet these challenging targets it is essential that action is taken to ensure that people are aware of the energy performance of the buildings they own or occupy and are given advice about how to reduce energy usage and thus reduce their carbon emissions.

An exception was made in guidance for accommodation that was being let out for a short period of holiday occupation only and no intention to create a tenancy could be inferred. This is because it was considered unlikely that someone renting a holiday home for a short period of time – typically 1 or 2 weeks – would take energy efficiency into account when selecting a property. We would like to amend the guidance and extend the requirement to produce an EPC to short term holiday lets as this would cover an extra 62,500 dwellings and give the owners of the dwelling and the person who stays there valuable information about how to improve energy performance. If obtaining an EPC prompted even a small number of owners to implement the recommendations, the potential reduction in carbon emissions could be relatively significant.

### Policy Objectives and Intended Effects

The overarching objective of this policy is to reduce carbon emissions and fuel bills by giving information about the energy efficiency of a dwelling to those who own or are planning to stay in it. The information will enable people to make informed choices about where to stay or how to make energy-efficiency improvements.

Extending EPCs to short term holiday lets is been proposed because it will:

- Give the owner of the holiday let information about its energy performance and cost-effective measures that could be taken to improve energy performance;
- Give the public information about the energy performance of the dwelling they are considering renting;
- Reduce utility bills for the owner if the recommendations are taken up, as in short-term holiday let arrangements it is usually the owner of the dwelling who pays the utility bills;
- Improve awareness of energy efficiency and the contributions that buildings can make to reducing carbon emissions; and
- Increase transparency.

## Definition of a Short Term Holiday Let and Exemptions

There is no widely agreed definition of which buildings would be included in the term short term holiday let.

For the purposes of this consultation we suggest that a holiday let is defined as a building that:

- Is a permanent structure that meets the definition of a building in the 2007 Regulations;
- Does not constitute the main residence of a household or individual;
- Is not occupied all year round; and
- Is occupied as a result of short term letting arrangements typically not exceeding 4 weeks.

We propose that the policy would only apply to properties that are rented out for 4 months or more in one year. It would not apply to people who have a second home and do not rent it out and it would not apply to those people who have a second home but rent it out for less than 4 months in a year.

The policy would only apply to buildings as defined in the building regulations; this would therefore exclude caravans, tents, mobile homes etc. We estimate that in England this policy would apply to around 62,500 dwellings.

## Options Considered

Two main policy options have been considered:

1. Do nothing, and;
2. Amend the guidance so that it provides that EPCs are required for short term holiday lets.

The preferred option is Option 2, as stated above there are a number of benefits to extending EPCs to short term holiday lets.

## Risks and Uncertainties

Cost of an EPC: The cost of an EPC is driven by market forces. This is a constantly changing figure. The costs used in this report reflect current market prices at the time of publishing the consultation.

Number of Holiday Lets: The number of short term holiday lets is not known precisely. The figures used in the report are the latest estimates at the time of publishing the consultation.

### Costs and Benefits of implementing the recommendations in EPCs

**Costs:** It is difficult to calculate the costs and benefits of implementing the recommendations in the report as it depends on many factors and cannot be accurately predicted. The cost of implementing energy efficiency measures is not reflected in the cost calculations below. The cost calculations only take the cost of obtaining an EPC into account.

**Benefits:** EPCs are a relatively new requirement and as yet we do not have the evidence to suggest what percentage of those who obtain an EPC take up the recommendations in the report thus reducing fuel bills and carbon emissions. Due to this, we have made an assumption for the purposes of this consultation that 20% of owners of holiday lets take up some of the recommendations.

We have also made an assumption that those that take up the recommendations will benefit from a fuel saving of 5%. This is based on [a report for the Energy Savings Trust](#) which reviewed results from a survey of 1,900 households. The average annual electricity saving obtained



across all 1,900 households for cooking, appliances and lighting use was 154kWh per dwelling, as a result of the provision of written reports

It should be emphasized that there is a large amount of uncertainty in the benefit estimates and so they should be viewed with considerable caution. They are used for illustrative purposes only.

CLG is about to undertake research to see what the effect of introducing EPCs has been in terms of behaviour change and take-up of the recommendations in EPCs, this research will be completed by the end of 2010.

### Risks

A risk is that holiday let owners will obtain an EPC but they do not implement any of the recommendations required to reduce fuel bills and save on carbon.

## **Estimate of Costs for Preferred and Alternative Options**

### OPTION 1

There are no additional costs for this option as it proposes to not make it mandatory for the owners of holiday lets to make EPCs available to prospective tenants or occupants when the dwellings are rented out.

### OPTION 2

There are between 55,000 and 70,000<sup>1</sup> dwellings that will require an EPC under this option. For the purposes of this calculation 62,500 dwellings have been estimated to determine the costs. The present value in the table below is calculated for a 30 year period. The cost of an EPC was estimated to be £75. This figure is an estimate and the actual cost will vary based on the size/complexity of the building. This figure includes the fee for lodgement on the England and Wales domestic and non-domestic EPC Register (£1.36) and other associated fees.

The discounted cost for an individual household over a 30 year period is estimated to be £170. There will be 3 inspections over the 30 year period. The following table gives the average annual cost and total costs (present value) in millions of pounds:

Number of holiday lets	Average annual costs	Total costs (PV)
1 Holiday Let	£6	£166
62,500 Holiday Lets	£345,544	£10,366,335

The analysis assumes that all those required to acquire EPCs do so.

### **Monetised/Quantified Benefits**

The assumptions for numbers of holiday lets and the length of time used in the calculation of the benefits are the same as for the cost calculation above.

Number of holiday lets	Average annual benefit	Total benefits
1 Holiday Let	£8	£251
62,500 Holiday Let	£523,871	£15,716,145

The benefits above include the gas and electricity savings as well as the traded and non traded carbon savings. The analysis assumes that the average area of property is 100m<sup>2</sup>. Different areas will change the energy consumed by the property, the smaller the area the less energy

<sup>1</sup> NQAS Statistics, DCMS

consumed. The lifetime traded carbon savings is 48,633 tons of CO<sub>2</sub> and the lifetime non traded carbon savings is 59,552 tons of CO<sub>2</sub><sup>2</sup>.

As we do not have evidence of actual take-up of recommendations at the moment these percentage savings are the same assumptions that were made in the 2007 Regulatory Impact Assessment of the EPBD.

The kWhs saved were converted to carbon equivalent saved by using the emissions factors from DECC's Greenhouse Gas Policy Evaluation and Appraisal<sup>3</sup>. The carbon equivalent savings are valued at the shadow price of carbon for gas and at the EU ETS allowance for electricity<sup>4</sup>.

All values were discounted over 30 years using the discount rate of 3.5%.

### Sensitivity Analysis

There is a degree of risk and uncertainty attached to the central results. Changes in the values of certain key variables can make a fairly significant difference to the costs and benefits.

1) Total (PV) Net Benefits £m of option 2 with different assumed % of landlords that take up some of the recommendations

	10%	Central 20%	30%
Total PV Benefit	7.9	15.7	23.6
Net Benefit PV	-2.5	5.3	13.6

The above is the net benefit range presented in the summary sheets.

2) Total (PV) Net Benefits £m of option 2 with different assumed % fuel saving for those who take up the recommendations

	2%	Central 5%	8%
Total Benefit PV	6.3	15.7	25
Net Benefit PV	-4.1	5.3	15.4

It should be noted that in both of the above the net benefit calculations include the estimated benefits of implementing energy efficiency measures but not their costs. The net benefits would be lower once these costs have been accounted for.

Varying the area of the property will change the net benefit results. If the average area is assumed to range between 50-150m<sup>2</sup> the net benefit ranges from £-2.5m to £13.6m.

### Non monetised Costs and Benefits

There are a number of potential non-monetary benefits of this policy:

- Giving the owner of the holiday let information about its energy performance and cost-effective measures that could be taken to improve energy performance;
- Giving the public information about the energy performance of the dwelling they are considering renting;

<sup>2</sup> [http://www.decc.gov.uk/en/content/cms/statistics/analysts\\_group/analysts\\_group.aspx](http://www.decc.gov.uk/en/content/cms/statistics/analysts_group/analysts_group.aspx) - figures are correct at the time of writing,

<sup>3</sup> [http://www.decc.gov.uk/en/content/cms/statistics/analysts\\_group/analysts\\_group.aspx](http://www.decc.gov.uk/en/content/cms/statistics/analysts_group/analysts_group.aspx)

<sup>4</sup> [http://www.decc.gov.uk/en/content/cms/statistics/analysts\\_group/analysts\\_group.aspx](http://www.decc.gov.uk/en/content/cms/statistics/analysts_group/analysts_group.aspx)

- Improving awareness of energy efficiency and the contributions that buildings can make to reducing carbon emissions; and
- Increasing transparency.

As noted above the costs of carrying out any energy efficiency improvement projects have not been included in the above monetised cost figures.

There could be both winners and losers among suppliers to the building industry since demand could fall for products with lower energy efficiency and rise for products with higher energy efficiency.

### **Consultation Process**

This impact assessment accompanies a consultation paper; the consultation period runs between 2nd March 2010 and 25<sup>th</sup> May 2010, and is carried out in line with current best practice guidance. We are seeking views on this Impact Assessment and would invite respondents to submit any evidence that may be relevant to the consultation proposals and this Impact Assessment.

### **Enforcement and Compliance**

Trading Standards Officers in local authorities are responsible for the enforcement and compliance for the rented sector. Letting a domestic property without producing an EPC will result in a £200 penalty. This would be extended to short term holiday lets.

### **Monitoring and Review**

This policy would be monitored closely throughout implementation and formally reviewed after 18 months in operation. The policy will be reviewed by discussions with stakeholders in the sector.

We are about to undertake research to see what the effect of introducing EPCs has been in terms of behaviour change and take-up of the recommendations in EPCs.

## **Wider Impacts**

Competition assessment: Rolling out EPCs to holiday lets will not produce any competition issues.

Small firms Impact: The proposal will have a positive effect on the SME sector. Almost without exception, firms undertaking domestic energy assessments are sole or two or three practitioner concerns. Owners of holiday lets will bear the cost of obtaining an EPC (approximately £75). However, the certificate is valid for 10 years. Owners would also bear the initial costs of implementing any of the energy saving recommendations accompanying the certificate, but these costs would be recouped over time.

Legal Aid: The proposal does not have any Legal Aid implications

Environmental Impact: Obtaining an EPC in itself does not have a direct impact on the environment. However, if any of the recommendations in the report that is part of an EPC are taken up this would reduce carbon emissions and have a positive effect on the environment by reducing climate change.

Health Impact: The proposal does not have any health implications.

Equalities and Social Impact: An Equalities Impact Assessment screening has been completed, covering race, age, health, disability and gender equality issues. Cost savings and improved home thermal comfort could have most benefit if the recommended energy efficiency measures were implemented.

Human Rights: The proposal does not have any impact on human rights.

Rural proofing: These proposals do not have an adverse impact on rural areas as holiday lets are a feature of both rural and urban locations.

## Specific Impact Tests: Checklist

<b>Type of testing undertaken</b>	<b><i>Results in Evidence Base?</i></b>	<b><i>Results annexed?</i></b>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment		
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No



