

REQUEST FOR MAYORAL DECISION – MD1408

Title: RE:NEW in the private rented sector

Executive Summary:

The Domestic Sector Retrofit programme RE:NEW has retrofitted approximately 100,000 homes since it was created in 2009. However in London a major scaling up of retrofit activity is required to meet our targets as part of the Mayor's carbon plan. This includes addressing energy efficiency in the private rented sector, which currently accounts for 25% of London's housing stock and is growing fast.

This paper seeks approval to support two projects to save energy and carbon in properties in the private rented sector (PRS) through the RE:NEW programme, and reinforce the appeal and benefits and boost membership of the London Rental Standard (LRS).

The projects seek to support achievement of RE:NEW Key Performance Indicators in the PRS, be promoted through the LRS, and provide evidence to use in marketing and engagement work that will increase the number of private rented sector retrofit projects delivered more widely.

Decision:

That the Mayor approves:

1. Expenditure of £141,000 of capital grant funding and £45,000 of revenue funding including for assessments and testimonial material to support delivery of at least 50 demonstration projects with LRS-accredited landlords, each resulting in a retrofitted PRS home and raising awareness of the benefits that can be achieved.
2. Expenditure of up to £80,000 revenue funding for the development and implementation of a pilot programme to trial the use of incentive payments to LRS-accredited lettings agents for achieving retrofit works on at least 400 PRS properties they let or manage on behalf of private landlords.
3. Expenditure of up to £20,000 revenue funding for the evaluation of both projects.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:

Date:

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

Introduction

- 1.1 The Mayor's Climate Change Mitigation and Energy Strategy (CCMES) sets out a plan to reduce London's emissions by 60% by 2025 compared to 1990 levels. Emissions from buildings account for 78% of London's emissions, with 36% of these coming from homes. The CCMES therefore targets a reduction of 630,000 tonnes of CO₂ saved from the domestic sector by 2015.
- 1.2 Given that 80% of London's buildings will still be standing in 2050, a strong retrofit programme is essential to meeting the Mayor's targets. To date the Mayor's award-winning RE:NEW programme, which is now in its third phase of delivery, has led domestic retrofit activity in London, delivering approximately 22,000 tonnes of CO₂ savings across over 100,000 homes.
- 1.3 The current RE:NEW programme has a mandate to drive energy and carbon savings in homes across London over the next three years. The targets for this phase of the programme are to retrofit 175,000 homes, save 93,000 tCO₂ annually and lever in £50 million of capital expenditure by 2017. With these stretching targets, and because of the challenges set out below, the focus of the RE:NEW Support Team is primarily on the social housing sector, to support the projects that will deliver the largest investment and carbon emissions reduction.

The case for action in the PRS

- 1.4 There are compelling reasons for improving energy efficiency in the PRS, and for taking action now:
 - the PRS accounts for a quarter of London's housing stock (850,000), is growing fast (nearly doubling in size since 2000) and yields a total annual rental value of over £13 billion. Given its large and increasing size, if the Mayor's carbon reduction targets are to be met it is essential to address energy efficiency this sector
 - there is an increasing focus on improving standards and promoting energy efficiency in the PRS, at local, regional and national government level. For example:
 - around a third of boroughs are currently in the process of introducing compulsory licencing schemes over and above the statutory minimum requirements for Houses in Multiple Occupation, with one already having done so
 - the GLA's London Rental Standard was launched in May 2014
 - the Energy Act 2011 requires that from 2016 it will be unlawful for landlords to refuse reasonable requests from tenants for energy efficiency improvements, and from 2018 it will become unlawful to rent out EPC F and G rated properties
 - recorded carbon savings for easy measures are highest in the PRS, at 130kg CO₂ per home per year compared with 111kg in council and 109kg in housing association properties¹
 - the Landlords Energy Saving Allowance (LESA), a tax allowance of up to £1,500 per building per year, is available but will end on 6 April 2015. ECO funding is also available but in more limited circumstances due the recent changes from central government
 - even in high demand areas, landlords may benefit economically from improved energy efficiency in their properties in the medium to long term:

¹ GLA (2012); RE:NEW Roll Out Evaluation Report 2011/12

- increased thermal comfort and lower bills for tenants² are likely to reduce tenant turnover and therefore void periods, and so increase rental income
- maintenance costs are likely to reduce
- property values may increase³
- the PRS is the worst performing sector in terms of quality of stock. 17% of PRS tenants are in fuel poverty, while 30% of PRS homes fall below the Decent Homes standard (compared with 10% and 21% across London overall)
- with the sector accommodating an increasing number of families, poor standards and fuel poverty will have an increasing developmental, health and educational impact on children⁴.

Challenges

- 1.5 However, there are significant challenges to achieving retrofit at scale in London's PRS:
- with an estimated 250,000 landlords, most of whom are part time amateurs with only one or two properties and few of whom are accredited or licensed, it is a hard to reach sector
 - private landlords are motivated by rental or capital returns and may be unaware of the economic benefits of retrofitting or see these as marginal in areas of high demand such as London
 - private landlords see cost, process, project management and tenant liaison as key barriers to undertaking works to improve the energy efficiency of their homes⁵. At the same time, many have misconceptions about the level of costs, degree of disruption and amount of time involved, meaning saving energy becomes a lesser priority for them⁶
 - information on solutions, financing options and incentives is not always easy to find, as it is fragmented across different agencies and there is no single source of support or advice for landlords
 - as the PRS is so fragmented, it is difficult for retrofit contractors to deliver works at scale, increasing the cost per property and reducing the extent of CO₂ savings and viability of projects.

Opportunities

- 1.6 There is an opportunity to support the delivery of projects that provide hard evidence and experience on how successful projects are delivered, and to publicise this evidence widely. In doing so, it is also possible to reward those landlords and agents who are LRS-accredited and to boost LRS membership.
- 1.7 Specifically, there is opportunity to prove to landlords that:
- energy saving works in the PRS are effective, easy to set up and deliver in range of scenarios and can fit within time constraints (void periods or with active tenancies)
 - tangible benefits accrue to landlords (lower maintenance, better tenants, more attractive properties, lower turnover) as well as to tenants (lower living costs, comfort, health benefits)
 - undertaking such works may assist private landlords to comply with forthcoming legislation and reduce the risk of enforcement action.

² The average fuel bill saving for a PRS home moving from an F or G EPC rating to an E is £409 per year -

www.ukgbc.org/resources/publication/analysis-wwf-and-uk-gbc-achieving-minimum-epc-standards-housing

³ www.gov.uk/government/news/energy-saving-measures-boost-house-prices

⁴ Marmot Review Team UCL for Friends of the Earth (2011); The health impacts of cold homes and fuel poverty

⁵ National Energy Action (2014); Improving the energy efficiency of London's private rented sector

⁶ Energy Saving Trust (2011); Trigger Points: A convenient truth

- 1.8 There is also a possibility to prove to boroughs, delivery agents and energy suppliers that:
- widely publicising examples of successful projects (funded or not) will generate momentum and further projects across London
 - targeted funding (by the public or private sector) can be used in different ways to drive short-term and longer-term successes
 - there are sustainable commercial ways of consistently developing warm leads.
- 1.9 Supporting the projects will be used as an opportunity to market the LRS and so improve standards in the sector more widely. The results of both projects will be used for marketing and promotion, primarily through the RE:NEW Support Team and the London Rental Standard's overarching marketing strategies, through the accreditation organisations to their current members and in training to those becoming accredited, and by boroughs (for example, to their landlord forums, to their temporary accommodation landlords and, potentially, to landlords with tenants in receipt of Housing Benefit).
- 1.10 It is envisaged that this crucial element of the project will increase knowledge and confidence in the sector and develop public and professional awareness of the solutions. It will drive significant energy efficiency works in the PRS, and promote awareness and membership of the LRS. It will also help to educate tenants, landlords, boroughs and delivery partners on what they can consider as realistic successes, and so boost retrofit activity.
- 1.11 The two projects propose to support annual savings of 290 tonnes of CO₂ in at least 550 PRS properties, and starting the GLA's catalysing of works in the PRS sector. It is proposed that both projects are open across the whole of London, but officers may look to target some works in particular boroughs.

2. Objectives and expected outcomes

- 2.1 The key objectives of supporting the proposed two projects are:
- to address some of the challenges to delivering retrofit at scale in the PRS by providing compelling evidence that retrofitting can be beneficial to private landlords' businesses, can be undertaken at low cost, with ease and with minimal disruption, with and a positive impact on their rental income
 - to reward LRS-accredited landlords and agents and market the LRS, to grow membership and improve standards in the sector more widely
 - to test the extent to which incentivising agents that let or manage PRS properties could result in an increase in retrofit activity, and how the model could work on a commercial/area basis
 - to gain experience to better apply limited resources to drive or facilitate improvements in the PRS, by delivering savings of at least 239 tonnes of CO₂ across 450 properties.

Project 1 LRS-accredited landlord demonstration projects

- 2.2 It is proposed that the GLA supports four boroughs engaging their landlords to secure energy saving works in at least 50 privately rented homes, and uses up to £141,000 of capital grant funding to award 60-100% of the cost of the works.
- 2.3 The opportunity for GLA-supported awards will be publicised through LRS bodies and boroughs to LRS members and potential members. Landlords will need to be or become LRS members in order to participate.
- 2.4 The energy efficiency of each home retrofitted will improve by one or two EPC classes. The works will target an average annual carbon saving of at least 0.53 tonnes of CO₂ per property, equating to a total of at least 26.5 tonnes of CO₂.

- 2.5 It is expected retrofit will be undertaken in a range of scenarios, including
- alongside other works (eg bathroom, kitchen) and stand alone
 - in houses, flats and houses in multiple occupation
 - within a '90 day' or '120 day' completion period (or a lesser period subject to delivery feasibility in specific areas)
 - at varying levels of cost (between £1,000 and £8,000 per home – though, with the estimated average cost of moving from an F or G EPC rating to an E standing at £1,471, most are expected to be at the lower end⁷)
 - with varying degrees of landlord involvement
 - at various EPC ratings, with a focus on properties currently at E, F or G.
- 2.6 The projects will deliver a range of examples for case studies and testimonials. It is proposed that £25,000 of revenue funding is allocated to the production of video testimonials of landlords and tenants. This element is critical in producing appropriate and targeted materials to use the evidence from the demonstrator projects to drive works widely across London.
- 2.7 Following detailed process design after Housing Investment Group, it is agreed to allocate £20,000 revenue funding to facilitate delivery of these projects, including supporting Green Deal assessment reports before the works and new Energy Performance Certificates after the works are complete. This is also laid out in 7.2 below. The overall project value remains unchanged.
- 2.8 The boroughs or the contractor will have the direct relationship with the landlord. The GLA will support the boroughs by providing capital grant funding to boroughs once works are confirmed. All works will be evidenced as per the terms of the grant agreement, with completion certificates received.
- 2.9 Officers acknowledge it will be easier to drive take up when supporting boroughs with grant funding compared to once GLA funding for works ends. However, the demonstration project aims to build experience of all aspects of project development and delivery (except for the external business case) work, to educate landlords and encourage them, when they consider the external business case strong enough, to move into delivery confident of a smooth, quick and successful process. The allocation of capital grant funds will seek to test landlords' willingness to pay for certain improvements and to maximise the results derived from this funding.

Project 2 LRS-accredited lettings agents incentives

- 2.10 It is proposed that the GLA uses up to £80,000 of revenue funding to support LRS-accredited lettings agents by providing a referral fee where promoting and enabling retrofit works in at least 400 privately rented properties they let or manage. Incentivising agents is an approach that has received support among both boroughs and private landlords⁸.
- 2.11 It is envisaged that the total support per property (including support for the landlord's assessment) would be between £50 and £200, though the exact amount and number of letting agents participating will be tested and subject to detailed consultation with the LRS accredited bodies and boroughs. It will be run alongside or shortly after the demonstration projects.
- 2.12 The approach will demonstrate the ability of this incentive approach to facilitate annual carbon savings of at least 0.53 tonnes of CO₂ per property, equating to a total of at least 212 tonnes of CO₂ for 400 homes.
- 2.13 The project will test the commercial viability of this type of incentive. If it is shown to be successful in driving retrofit, the GLA will promote the approach among boroughs, delivery agents, energy

⁷ www.ukgbc.org/resources/publication/analysis-wwf-and-uk-gbc-achieving-minimum-epc-standards-housing

⁸ National Energy Action (forthcoming); Improving the energy efficiency of London's private rented sector

providers – ie organisations that may have the funding to do this at scale and will themselves benefit either financially or in terms of achieving energy efficiency objectives.

- 2.14 The project will operate on a payment by results basis. This means we would require robust proof of works having been undertaken. We suggest a condition that properties have to move up by at least one EPC rating to qualify, however the detail of this and any EPC/cost requirements will be finalised as part of implementation. Market testing will take place before the launch to ensure the payment is at an appropriate level to drive interest and to be viable for other organisations to support once the GLA's project closes.
- 2.15 The incentive will be publicised through LRS bodies and boroughs to LRS-accredited agents and those with the potential to become accredited. There would be no direct financial relationship between the GLA and the agents. It is envisaged the GLA would have a grant agreement with London Rental Standard partners or boroughs, with money payable by them to agents on receipt of completion certificates.
- 2.16 This project will be reviewed by SMT at an appropriate mid-point to observe how it is working, with an option to suspend.

Evaluation

- 2.17 Once complete, both projects will be evaluated for lessons learned, legacy and potential for commercialisation. It is proposed that the GLA allocates £20,000 of revenue funding for this.

3. Equality comments

- 3.1 The GLA has taken and will take appropriate steps to ensure that there are no potential negative impacts expected on those with protected characteristics. Those with protected characteristics will gain from the positive benefits of these projects in equal measure should their properties be selected, and there will be equality of access to participate in the delivery and benefit from the programme, without discrimination.
- 3.2 Overall, BME communities are considered more at risk of fuel poverty and fuel debt than other urban groups, and this is especially true amongst the older generations. Higher numbers suffering poor housing, lower incomes, and often a language barrier are all thought to be reasons why people struggle. These combine with major difficulties accessing the services and entitlements they require, leading to cold homes and risk of fuel debt.
- 3.3 It is considered that this project may have a positive impact on homes currently in fuel poverty both directly, through the demonstration and incentives projects, and by catalysing greater awareness of the opportunities, benefits and delivery methods. The number of fuel poor homes directly treated will be monitored and reported as part of the evaluation, with lessons learned for future PRS works.

4. Other considerations

Links to Mayoral strategies and priorities

- 4.1 This programme will contribute to London becoming a world leader in improving the environment: identifying and investing in projects that reduce greenhouse gas emissions, reducing resource consumption and develops new green skills and services.
- 4.2 In terms of Mayoral Strategies and commitments, the projects will contribute towards the following policies in the Climate Change Mitigation and Energy Strategy:

4.2.1 The overall target of cutting carbon emissions by 60% by 2025;

4.2.2 Policy 6 - Retrofitting existing homes with energy efficiency measures, water efficiency measures, and low and zero carbon microgeneration technologies (retrofitting of energy efficiency, energy supply, and water efficiency measures to 1.2 million existing homes in London by 2015, and all homes in London by 2030); and

4.2.3 Policy 7 - Tackling fuel poverty in London.

4.3 It will also contribute to objective 3 of the Mayor’s Economic Development Strategy to “make London one of the world’s leading low carbon capitals by 2025 and a global leader in carbon finance”.

Risks and issues

4.4 The key risks and issues for delivery of these projects are set out in the table below:

Risk	Likelihood (out of 5)	Impact (out of 5)	Rating	Mitigation
Lack of take up leading to low/no results	2	4	8	Avoid. Discussions ongoing with boroughs and London Rental Standard accreditation bodies to ensure projects are correctly targeted and marketed.
Lack of commercial viability of lettings agents incentive meaning no legacy from GLA work and investment undertaken on this strand	2	4	8	Avoid. Early market testing to form part of the detailed development process. Incentive scheme to be designed with the proposed legacy to commercialise the practice and/or hand over to boroughs in mind, and in consultation with key commercial and borough stakeholders.
Lack of interest in video testimonials and stories produced as a result of demonstration projects leading to little/no PRS energy saving projects delivered independently	2	3	6	Avoid. Ensure expectations are realistic and marketing targets reflect this. Use London Rental Standard experience and lessons to target and design approaches. Use existing and new relationships to broaden network for publicity, maximising chances of lead generation.
Project not delivered on time	2	3	6	Reduce. All the projects within the programme have been subjected to extensive project and delivery planning. Continue systematic approach. A programme manager is in place to monitor progress against agreed milestones and deliverables.
Not achieving stakeholder buy-in to scope, principles and objectives	1	5	5	Avoid. The programme has been designed from identified need, lessons learned and the views of stakeholders. Further development and engagement work to ensure work is communicated properly, will produce results and is deliverable.

Damage to GLA reputation from lack of success	2	2	4	Avoid. Work with skilled and willing partners and design programme to ensure the GLA is taking appropriate action at every stage. If lack of uptake means not all funding is required for this work, it is proposed to recycle the available funds into the wider RE:NEW programme.
Provide effective double subsidy to letting agents and landlords on individual projects	2	2	4	Mitigate. The demonstrator projects will commence delivery before the incentive scheme. However, if the incentives for lettings agents result in schemes where landlords use the funding for demonstrator projects, it will not provide >100% funding for any particular stakeholder. Use of both funding streams on a single property will still deliver the outcomes desired.
Risk of legal challenge on either project	1	4	4	Avoid. If landlord is a company, to avoid any possible State Aid issue we will ensure any support falls within De Minimis limits and that this is one of the selection criteria

Impact assessments and consultations

- 4.5 There has been widespread consultation on the proposals with a range of partners. There is support for both approaches from London Rental Standard partners (NLA, ARLA, NALS) and interest in participating from a number of boroughs (Barnet, Brent, Croydon, Enfield, Haringey, Havering, Hounslow, Lambeth, Newham and Richmond).
- 4.6 A copy of this business case has been reviewed by Housing and Land Senior Management Team on 15 September 2014, and by Housing Investment Group on 2 October 2014.

5. Financial comments

- 5.1.1 The budget will be allocated from the 14-15 and 15-16 RE:NEW budgets as set out below:

Total RE:NEW budget	14-15 budget	15-16 budget
RE:NEW programme support	22,000	0
To be used under this approval	141,000	0
Total CAPITAL	163,000	0
RE:NEW support team (MD1289)	95,200	Up to 126,000
Identified for other allocation	205,750	0
To be used under this approval	141,050	4,000
Total REVENUE	442,000	250,000 subject to confirmation

- 5.1.2 This Mayoral Decision proposes allocating £141,000 capital funding and £141,000 revenue funding from the 14-15 budget and £4,000 revenue funding from the 15-16 revenue budget, as set out below. This is subject to the 2015/16 budget setting process and approval of the carry forward amounts requested as part of the year end process:

PRS projects Expenditure	2014/15 budget to be spent in year	2014/15 carry forward to 2015/16	2015/16 budget	Total
Capital	£55,000	£86,000	£0	£141,000

Revenue	£59,000	£82,000	£4,000	£145,000
Total	£114,000	£168,000	£4,000	£286,000

- 5.1.3 The £141,000 capital budget will be used to support energy saving works in at least 50 homes, targeting an average cost of at most £2,800 per property. In relation to this work, £45,000 revenue expenditure will fund assessments, training and marketing material required to facilitate delivery and capture of project testimonials.
- 5.1.4 The second project will allocate £80,000 to incentivise LRS accredited letting agents to retrofit at least 400 homes.
- 5.1.5 £20,000 has been approved to evaluate the project in 2015/16.
- 5.1.6 In the case that the budget carry forwards are not approved, the spend will need to be contained within the allocated budget for 2015/16.
- 5.1.7 The Programme Policy and Service unit in Housing and Land will be responsible for managing this spend.

6. Legal comments

- 6.1 The foregoing sections of this report indicate that:
- 6.1.1 the proposals in respect of which approval is sought fall within the GLA's powers to do such things as are considered facilitative of and conducive to the promotion of economic and social development and wealth creation and the improvement of the environment in Greater London; and
- 6.1.2 in formulating those proposals officers have complied with the Authority's related statutory duties to:
- (a) pay due regard to the principle that there should be equality of opportunity for all people;
 - (b) consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
 - (c) consult with appropriate bodies.
- 6.2 Officers must ensure that any:
- 6.2.1 grant funding is to be awarded by the GLA as part of the proposals is disbursed in a fair and transparent manner in accordance with the GLA's Contracts and Funding Code and a grant funding agreement is put in place between and executed by the GLA and any recipient(s) before any commitment to the funding is made; and
- 6.2.2 services or supplies required are procured by Transport for London Procurement, who will determine the detail of the procurement strategy to be adopted in accordance with the GLA's Contracts and Funding Code, and appropriate contract documentation is put in place and executed by the GLA and any contractor(s) before the commencement of any such supplies or services.

7. Housing Investment Group

- 7.1 The proposals were discussed at Housing Investment Group on 2 October 2014 and the following comments were made:

- 7.1.1 There will be investigation into how to strengthen the lettings agents incentives scheme such as by forming partnerships with key sector stakeholders. This will be explored as part of the detailed feasibility work.
- 7.1.2 The allocation of capital grant funds for demonstration projects will seek to test landlords' willingness to pay for certain improvements and to maximise the results derived from this funding.
- 7.2 Detailed design of the process since Housing Investment Group has highlighted for a larger element of revenue budget in the demonstration projects. As a result it is agreed to transfer £20,000 of revenue funding from the lettings agents incentives scheme to the demonstration projects to facilitate the production of assessment reports before and after the works, and targeted training for landlords to become London Rental Standard-accredited. The training is not expected to account for more than £5,000 of the £45,000 revenue funding for the demonstration projects. In addition, it can upskill landlords who have assessments but may not be able to have works done to their properties and boost the awareness of the impact of the London Rental Standard training. The overall project value remains unchanged.

8. Planned delivery approach and next steps

Activity	Timeline
Mayoral Decision	20 December 2014
Demonstration project launched	12 January 2015
Incentives project launched	12 January 2015
50 demonstration projects achieved and closedown	31 May 2015
250 incentives projects achieved	31 May 2015
400 incentives projects achieved and closedown	31 August 2015
Evaluation undertaken	1 September to 30 November 2015

Appendices and supporting papers: None

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:

Is the publication of Part 1 of this approval to be deferred? NO

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Robert Spender has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.

✓

Assistant Director/Head of Service:

Jamie Ratcliff has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Sponsoring Director:

David Lunts has reviewed the request and is satisfied it is correct and consistent with the Mayor’s plans and priorities.

✓

Mayoral Adviser:

Richard Blakeway has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

Date

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

Date