Department for
Business, Energy
& Industrial Strategy

Improving home energy performance through lenders

Consultation on setting requirements for lenders to help householders improve the energy performance of their homes

Closing date: 12 February 2021

November 2020

Any enquiries regarding this publication should be sent to us at: lenderconsultation@beis.gov.uk

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General information

Why we are consulting

In June 2019 the UK became the first major economy to pass a net zero emissions target into law. The target requires the UK to bring all greenhouse gas emissions to net zero by 2050. Homes in the UK made up 15% of greenhouse gas emissions in 2018, or 22% if electricity consumption is included.[1] The government recognises that, in order to achieve net zero, we need to have largely eliminated emissions from our housing stock by 2050.

The government's Green Finance Strategy, published in July 2019, set out its intention to grow the market for green finance products to support home energy performance improvements. It included a commitment to consult on the merits of setting requirements for lenders to help households to which they lend to improve the energy performance of their homes.

Building on feedback from the government's Call for Evidence on 'Building a Market for Energy Efficiency', published in 2017, this consultation seeks views on the principles of how best to improve the energy performance of domestic properties with a mortgage through obligations on lenders. The mandatory proposals contained in this document will be subject to further consultation and analysis.

Consultation details

Issued: 18 November 2020

Respond by: 12 February 2021 11.45 pm

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Consultation reference: Improving Home Energy Performance through Lenders

Audiences:

[1] BEIS, 2018 UK Greenhouse Gas Emissions, Final figures, 4 February 2020, p.19

Mortgage lenders, mortgage brokers, home valuers, estate agents and others involved in the sale of domestic buildings; the supply chain (energy efficiency installers, Domestic Energy Assessors, accreditation bodies and enforcement bodies); building owners and occupiers in the domestic sector; anyone affected or concerned by these proposals, or representing the interests of the sector.

Territorial extent:

Consultation proposals cover England and Wales only.

How to respond

We strongly encourage responses to be submitted online using the Citizen Space link below, where possible as this supports timely and efficient analysis of responses.

Respond online at: https://beisgovuk.citizenspace.com/energy-efficiency/improving-home-energy-performance-through-lenders

Or, in the event, you are unable to do so:

Email to: lenderconsultation@beis.gov.uk

When responding, please state whether you are responding as an individual or representing the views of an organisation.Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable UK data protection laws. See our privacy policy.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people’s personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's consultation principles.

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Executive summary

Our homes are a key part of our national heritage. They have shaped and defined us as a society. They reflect our culture and environment, rooting us to a village, town or city, but adapting over time to meet our changing tastes, needs and priorities. The UK housing stock is generally older than that of the rest of Europe and the potential for improvement in the energy performance of our homes is considerable. The energy performance of privately owned homes in England, including the private rented sector, falls considerably below the current standards of social housing, with 8% of occupants in fuel poverty.[2] Improving the energy performance of these homes is a vital part of our wider strategy to decarbonise buildings cost- effectively, in light of the significant challenges posed by climate change.

As part of a wider package of measures, this consultation seeks views on the government's proposals to set requirements for lenders to help homeowners to improve the energy performance of their homes. These proposals would significantly improve the energy performance of mortgaged properties in the 2020s, in order to:

- Deliver substantial emission reductions, which will help to meet our Carbon Budgets 4 and 5 and support a decarbonisation pathway consistent with our net zero target;
- Increase the quality, value and desirability of homeowners' assets, while reducing energy bills and ensuring warmer homes;
- Help pave the way for the UK's transition to low-carbon heating by reducing demand and preparing homes for the installation of low-carbon heating measures;
- Support investment in high quality home retrofit jobs and skills in the supply chain across England and Wales; and
- Provide greater energy security, through lower energy demand on the grid, and reduced fuel imports.

The coronavirus pandemic has had a major impact on daily life in the UK, including the housing market. The government and lenders took steps to protect mortgagors and tenants from the economic strains of the pandemic: for example, by introducing mortgage payment holidays for mortgagors, and temporarily banning evictions to help stabilise the housing market and provide tenants with security. From 13 May, plans were made to restart and reopen the housing market, provided appropriate safety measures were adhered to, and there has been a significant increase in mortgage approvals this August.

However, improving the energy performance of homes offers significant economic opportunities. Working with lenders as part of a sustainable economic recovery will not only help homeowners to overcome existing barriers to improving the energy efficiency of their homes, but will also create and sustain jobs in the home retrofit supply chain.

Crucially, lenders interact with homeowners at key points, including when they buy, re-mortgage or improve their properties. In stimulating a market for green finance and capitalising

[2] https://www.gov.uk/government/collections/fuel-poverty-statistics

on the existing interactions lenders have with mortgagors, we can ensure access to attractive finance options for homeowners. Tapping into this commercial potential and developing this market could help to ensure that all households can benefit from access to finance, and that the energy performance of their homes is brought up to the required level as performance standards are tightened over time. This is why, in the Green Finance Strategy published in July 2019, we committed to consult on the merits of setting requirements for mortgage lenders that could help build the market for green finance products to support home energy efficiency.

The proposals are set out in Chapters 1 and 2 of this consultation:

Chapter 1 sets out our proposals for improving awareness of the energy performance of lenders' portfolios in England and Wales.

- Annual disclosure of portfolio-wide Energy Performance Certificate (EPC) data and the gross value of lending for energy performance improvement works will allow comparisons to be made between lenders and will also allow interested parties to determine how the energy performance of homes is influencing lending decisions;

- We are inviting views on whether the option to provide additional commentary alongside EPC data would be useful to lenders that may have older portfolios, which may include harder-to-treat, less energy efficient properties;

- We are proposing a trajectory from voluntary to mandatory disclosure and seeking views on the level of uptake we might expect from a voluntary policy.

Chapter 2 considers a target-based approach for improving the energy performance of lenders' portfolios. It explores:

- How the government could work with lenders on a form of self-regulation underpinned by voluntary improvement target setting;

- How such voluntary targets would allow for market testing of green finance products, using the information provided by a disclosure policy;

- How the government could ensure comparable effort across all lenders by having the option of introducing a mandatory target if necessary;

- An illustrative approach for how a mandatory target could work in practice.

In the **Wider considerations** section of this consultation, we invite views on a broad range of factors that may interact with the implementation of our policy proposals, including data availability, consumer awareness, impacts on vulnerable mortgagors and consequences for the mortgage market. We consider interactions with other policies, including regulation in the private rented sector, and the potential to apply our proposals to smaller non-domestic buildings. This section also tests a more stretching alternative policy proposal.

The government is planning to publish the Government Response to this consultation in 2021. A future consultation on any detailed requirements to be set in regulations will be shaped by the responses to the first-stage proposals contained in this document. We remain open to alternative proposals and welcome views on different approaches throughout this consultation.

Introduction

In June 2019 the UK government became the first major economy to legislate for net zero greenhouse gas emissions. The target requires the UK to bring all greenhouse gas emissions to net zero by 2050. In addition to our net zero target, the UK has stretching interim emission reduction targets, the Carbon Budgets, which require the equivalent of a 57% reduction in emissions relative to 1990 levels from across the UK economy by 2032.

To achieve these targets, ambitious action in all sectors of the economy is required, including tackling emissions generated by our homes. To date, greenhouse gas (GHG) emissions from homes have reduced by 16% compared to 1990 levels. However, they still account for 15% of all GHG emissions, or 22% if electricity generation is included.[3]

In 2017, the government set out its aspiration in the Clean Growth Strategy (CGS) for as many homes as possible to be upgraded to Energy Performance Certificate (EPC) Band C by 2035, where practical, cost-effective and affordable.[4]

This consultation sets out a suite of policy proposals to achieve this aim as part of a broader package of proposals covering the domestic and non-domestic private rented, social, and owner-occupier sectors. The policy proposals set out in this consultation link closely with other proposals being developed concurrently. These include:

- The £2bn Green Homes Grant, through which homeowners and landlords will be able to apply for a voucher to fund up to two thirds of the cost of upgrading the energy performance of their home (up to a maximum contribution of £5,000). Low income households will be eligible for up to 100% government funding, up to a total of £10,000. The Green Homes Grant was launched on 30th September 2020 and further details on the range of measures available and how the scheme will operate can be accessed here;

- Improving the energy performance of privately rented homes. In September 2020 the government launched a consultation on increasing the energy performance standards for the domestic private rented sector. The consultation can be accessed here;

- Looking at incentives and levers that could encourage homeowners to invest in energy efficiency improvements in line with our Clean Growth Strategy commitment to upgrade as many homes as possible to EPC C by 2035 where practical, cost effective and affordable. Alongside a package of incentives, we can use long term regulatory measures to provide certainty to the market and clear signals to homeowners. We will seek primary powers to enable regulatory measures to improve the energy performance of homes, and will consult in 2021 on options for these measures;

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3 BEIS, 2018 UK Greenhouse Gas Emissions, Final figures, 4 February 2020, p.19

4 HMG, Clean Growth Strategy, 2017 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/700496/clean-growth-strategy-correction-april-2018.pdf, p. 75.

- The government's intention to consult on proposed changes to the energy efficiency and ventilation requirements of the Building Regulations relating to existing homes;
- Improving social housing - we are developing proposals for a transformational £3.8bn Social Housing Decarbonisation Fund which will improve the energy performance of social housing;
- The Future Homes Standard, which will require new build homes to be future-proofed with low-carbon heating and world-leading levels of energy efficiency;
- The commitment to start to phase out high-carbon fossil fuel heating in off gas grid buildings in the 2020s; and
- The Heat and Buildings Strategy, to be published in due course, will set out the immediate actions we will take for reducing emissions from buildings, including the deployment of energy efficiency measures and low-carbon heating, as part of an ambitious programme of work required to enable key strategic decisions on how we achieve the mass transition to low-carbon heat.

Energy performance of privately owned homes

Owner-occupied and privately rented homes account for 83% of homes in England[5] and 84% of homes in Wales,[6] and are some of the worst performing in terms of energy efficiency.[7] The average energy performance of the owner-occupied stock is similar to the privately rented stock; in 2017 this equated to a low EPC Band D.

Investing in energy performance measures, such as insulation and low-carbon heating, delivers a wide range of benefits.

Over the short to medium term, better insulated, more energy efficient buildings will require less energy to heat, bringing down fuel bills for consumers and lowering overall energy demand. The average modelled running costs of energy for an EPC Band C rated home in England in 2017/18 was around £300 less than for a Band D rated home, and £740 less than for a Band E rated home.[8] Owner-occupiers live in their homes for an average of 18.1 years, with the potential to achieve substantial bill savings, as well as health and comfort benefits, if early action is taken to improve energy performance.[9]

Over the longer term, improved efficiency of buildings will enable a pathway to full decarbonisation of heat and electricity generation.

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[5] MHCLG, English Housing Survey: Headline Report, 2018–19, p.1
[6] Welsh Government and Statistics for Wales, Dwelling Stock Estimates for Wales, as at 31 March 2019
[7] MHCLG English Housing Survey: Headline Report, 2018–19, pp.33–35
[8] MHCLG, English Housing Survey: Energy Report, 2017–18, p.18
[9] MHCLG, English Housing Survey: Headline Report, 2018–19, p.19

Improving the energy performance of privately owned homes also presents significant clean growth opportunities for the UK low carbon and renewable energy economy, which turned over £44.5 billion and employed around 210,000 full-time equivalent employees in 2017.[10]

Mortgaged properties in England and Wales

Owner-occupied properties form the largest group of domestic properties in England and Wales. Of the 15 million owner-occupied households in England, 45% are owned with a mortgage, equating to almost 7 million homes.[11] In Wales, approximately 40% of the 1 million owner-occupied households are owned with a mortgage.[12]

In 2017/18, there were 4.5 million private rented households in England;[13] the English National Landlord Survey indicates that 61% of these properties are owned with a mortgage.

Snapshot of the UK mortgage market

The UK mortgage market is dominated by the high street retail banks and a number of large building societies. The ‘big six’ high street lenders accounted for just over 70% of all mortgage lending in 2019.[14] In August 2020, mortgage approvals reached their highest monthly level since 2007.[15] This increase is likely due in part to government support during the pandemic, such as the stamp duty holiday, as well as an increase in people wishing to move out of large urban centres.

The profile of mortgagors in the UK has shifted in recent years. Prior to the COVID-19 pandemic, first-time buyers accounted for 50% of mortgages for home purchase and were at their highest share of housing sales since 2007.[16] Existing homeowners were at the lowest share of housing moves for a decade. Mortgaged buy-to-let borrowers accounted for 6% of all housing sales, a decline from 9% in 2013. Some of these national shifts mask vast regional differences. First-time buyer numbers have grown by over 25% between 2015 and 2018 in areas where housing is more affordable but have flattened or decreased in London.[17]

Consumer engagement is high, as demonstrated by the fact that over three quarters of mortgagors switch products within six months of moving on to a reversion rate (such as a lender’s standard variable rate (SVR)). This may be due to lenders and intermediaries proactively informing consumers about their options and making switching hassle-free.[18] Remortgaging has also been boosted in recent years, in part as a result of this proactivity from

[10] ONS, Low carbon and renewable energy economy, UK, 2017
[11] MHCLG, English Housing Survey: Headline Report, 2018–19, pp.5–6
[12] Welsh Government and Statistics for Wales, Dwelling Stock Estimates for Wales, as at 31 March 2019
[13] MHCLG, English Housing Survey 2017–18: private rented sector, p.3
[14] UK Finance, Annual ranking of mortgage lenders by outstanding balances and gross lending, 2019 figures
[15] Bank of England, Statistics, Money and Credit – August 2020, 29 September 2020
[16] UK Finance, The Changing Shape of the UK Mortgage Market, December 2019, p.7
[17] Ibid. pp. 7-8, 32
[18] FCA, p.25

lenders and intermediaries, as well as increased competition for business.[19] A relatively small proportion of the residential UK mortgage book (11%) is now on SVR reversion products.[20]

The role of intermediaries (mortgage broker firms) has also grown in recent years. Three quarters of residential mortgages are originated by intermediaries, which rises to 80% for first-time buyer mortgages.[21]

In the first six months of 2020, the proportion of homeowner mortgages in arrears remained at a significantly lower level than the same period in previous years.[22] This may be due to low interest rates, rising house prices and stringent affordability tests. However, there was a relatively small increase in arrears compared to Q4 2019 which is likely due to the effects of COVID-19. The industry has since introduced multiple forbearance measures to reduce financial difficulties for borrowers who are in need of support. More than 2.0 million borrowers have been granted mortgage payment holidays by UK lenders, with just under one million still in place as borrowers begin to exit their payment deferral arrangements and resume monthly payments. Some lenders are also offering other forms of assistance, such as extended mortgage terms, product switches, or 12-month interest-only deals to help reduce monthly outgoings.

The role of mortgage lenders in improving energy performance

The government recognises that there are a wide range of demand and supply side barriers to overcome in the market, as explored in the Call for Evidence on 'Building a Market for Energy Efficiency', and that no 'silver bullet' policy will work in upgrading our homes.[23]

To this end, we are focussing on developing a complementary package of measures that will respond to market barriers and pilot new approaches, with a view to adapting the approach based on how the market responds.

As part of this package of measures, mortgage lenders could play a vital role in driving the home energy performance improvements required to meet our Carbon Budgets and net zero target. They are uniquely placed to influence mortgagors at critical trigger points, such as home purchase, renovation or re-mortgage.

The existing relationships lenders have with their customers, often supported by a strong regional focus, provide a platform for lenders to develop green products that will encourage action from mortgagors by removing financial barriers and thereby help to unlock the value of improved energy performance.

Previous market analysis, including responses to the Call for Evidence, identified potential options for lenders, including:

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19 UK Finance, The Changing Shape of the UK Mortgage Market, December 2019, p.19
20 Ibid. p.23
21 Ibid. p.26
22 UK Finance, Arrears and Possessions, Q2 2020, 13 August 2020
23 BEIS, Call for Evidence: Building a Market for Energy Efficiency, 12 October 2017

- Consideration of energy efficiency in mortgage affordability calculations as identified through the LENDERS project[24] and review of mortgage affordability rules to encourage green mortgages;[25]
- Green mortgage 'extensions' where lenders are encouraged to offer additional borrowing to existing customers to improve the energy performance of their homes; [26]
- International examples such as the US property assessed clean energy (PACE) loans;[27] the work of the EU-funded Energy Efficient Mortgages Initiative in defining energy efficient home finance products;[28] the provision of additional borrowing potential by increasing Loan to Value Ratios for energy efficient homes in the Netherlands;[29] and the KfW energy efficiency refurbishment grants and loans funded by the German government.[30]

This list is not exhaustive, but it is acknowledged that individually, and in the absence of either regulation or extensive provision of funding, the above options are unlikely to significantly improve the energy performance of our existing housing stock at the rate required.

Nonetheless, there are lessons to be learned from and opportunities presented by these measures as well as others. In December 2019, the Green Finance Institute established the Coalition for Energy Efficient Buildings (CEEB).[31] The CEEB, made up of 52 member organisations, is developing the market for financing net-zero and resilient homes through the co-design and launch of financial 'demonstrators' that provide the catalyst for further financial innovation at scale. The first wave of these demonstrators are financial enablers, designed to appeal across tenure types. These include: Energy Efficiency and Property Valuations, aiming to unlock the investment-value correlation; Metered Energy Savings, aiming to develop a standardised savings calculation methodology; and the TrustMark 'Call to Action' Platform, helping customers to identify and visualise technical changes, providing information on accessing finance, and directing homeowners to reputable supply chains.[32]

Rationale for consideration of green factors in lending decisions

Aside from the environmental and social benefits of improved home energy performance, there are risks associated with inaction in the face of climate change. In 2018, the Bank of England identified the energy performance of homes as one of the major climate 'transition risks' for banks. The report pointed to a risk of stranded assets if landlords fail to respond to regulation on homes (such as the Energy Efficiency (Private Rented Property) (England and Wales)

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[24] LENDERS report, UKGBC, July 2017 https://www.ukgbc.org/ukgbc-work/lenders-core-report/
[25] P37, Costing the Earth, Onward, November 2019 https://www.ukonward.com/new-onward-research-costing-the-earth/
[26] Policy Exchange https://policyexchange.org.uk/publication/efficient-energy-policy/
[27] US Office of Energy Efficiency and Renewable Energy https://www.energy.gov/eere/slsc/property-assessed-clean-energy-programs
[28] Energy Efficient Mortgages Initiative https://energyefficientmortgages.eu/
[29] Building Assessment Briefing, The Netherlands, EEMAP https://eemap.energyefficientmortgages.eu/04-downloads-2/
[30] https://www.kfw.de/inlandsfoerderung/Privatpersonen/Bestandsimmobilie/
[31] https://www.greenfinanceinstitute.co.uk/news/press-release-green-finance-institute-establishes-coalition-for-the-energy-efficiency-of-buildings/
[32] Green Finance Institute, 'Financing energy efficient buildings – the path to retrofit at scale', May 2020

Regulations).[33] A working paper published by the Bank in January 2020 revealed that residential mortgages against energy-efficient properties (EPC Bands A–C) are around 18% less likely to be in arrears than those against energy-inefficient properties (EPC Bands E–G); while this may not mean there is a causal relationship between the two factors, it suggests that the energy performance of a property is a relevant predictor of mortgage payment arrears and may become a relevant factor for risk-adjusted pricing of mortgages.[34]

The upside of improved energy performance, assuming consumer behaviour does not change as a result, is that owner-occupiers or tenants in mortgaged properties pay lower energy bills and are then more able to pay their mortgage or rent, therefore posing a lower credit risk.

In December 2019, the European Banking Authority (EBA) published its 'Action Plan on Sustainable Finance'. The EBA requires that banks should act now to tackle climate change by measuring green lending on their books, creating sustainable business strategies and disclosing Environmental, Social and Governance risks. It specifically references the Energy efficient Mortgages Action Plan (EeMAP), which is a market-led initiative focussed on the design and delivery of a standardised energy efficiency mortgage. [35]

Market failures and environmental externalities

There has been limited mortgage product innovation in general over recent years. This is also the case for green product development, which has been inhibited by several barriers and the presence of market failures. These include contested evidence on the relationship between energy performance and its impact on property valuation;[36] lenders' poor internal information on the energy performance of lending portfolios and default rates; households' high discount rates of future energy savings; an immature capital market in green lending; and risk aversion to launching untested products.[37]

There are some examples of lenders reflecting energy performance in their lending decisions. In 2017, Barclays floated a green bond made up of loans to high performing homes that was heavily oversubscribed. It was able to recycle the proceeds to fund its Green Home Mortgage Product, which applied to energy efficient new-build properties from one of its partner builders.[38] There has not yet been a comparable bond allocated to existing properties requiring retrofit. However, this looks likely to change.

Some larger lenders are beginning to take accelerated action in this area. In January 2020, Lloyds Banking Group announced its commitment to cut its carbon emissions by 50% in the next decade and to support its customers to make energy improvements to their homes through the creation of green products.[39] In February 2020, Nationwide Building

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[33] Bank of England,'Transition in thinking: The impact of climate change on the UK banking sector', Sept 2018 p28
[34] Guin, B. and Korhonen, P. Staff Working Paper No.852: Does energy efficiency predict mortgage performance?, January 2020. The difference is statistically significant at the one percent level. It remains similar when controlling for differences in household income and other property and household characteristics.
[35] EBA Action Plan on Sustainable Finance, 6 December 2019, p.7, 11 and p.21
[36] RICS, Energy Efficiency and Residential Values: A Changing European Landscape, March 2019
[37] There was also limited engagement of larger lenders with the 2017 Levering Economics for New Drivers to Energy Reduction & Sustainability (LENDERS) project, which explored the extent to which mortgage lenders could better estimate energy costs using data, including properties' EPC ratings
[38] Barclays, Barclays Green Bond Framework, September 2017
[39] Lloyds Banking Group, Press release: Lloyds Banking Group pledges to cut carbon by more than 50% in the next decade to help finance a green future, 21 Janury 2020

Society earmarked £1 billion to help borrowers to buy energy efficient properties as well as to provide loans to homeowners wishing to make older houses more eco-friendly.[40] In the same month RBS announced its commitment to support its customers to increase their energy efficiency, with an ambition that 50% of its mortgage book will have an EPC, or equivalent rating, of C or above by 2030.[41]

It is increasingly important for banks to consider the potential negative externalities for the environment that result from their decisions. Paying little attention to environmental sustainability and failing to differentiate between properties of poor and high energy performance could result in greater exposure to climate-related risks and limit investment in climate-related business opportunities.

Green Finance Taskforce

The Green Finance Taskforce published a report in 2018 that recommended taking a more activist approach to stimulating innovation in green finance products and services where the UK has a competitive advantage. This included developing new finance products such as green mortgages and mainstreaming consideration of green factors into lending decisions, including disclosure of portfolio-level EPC data.[42]

Based on the responses to the Call for Evidence on 'Building a Market for Energy Efficiency' and the recommendations made in the Green Finance Taskforce report, the government set out its actions for building the market for green finance products to support home energy performance in the Green Finance Strategy (GFS). This included awarding £1.8 million to three organisations to develop and pilot green finance products to incentivise energy efficiency retrofit in homes,[43] as well as a commitment to publish this consultation.[44]

The use of EPCs in these policy proposals

The proposals presented in this consultation use Energy Performance Certificates (EPCs) as the most objective and widely available means of assessing the energy performance and environmental impact of homes. An Energy Performance Certificate Action Plan[45] was published in September 2020 to maximise the effectiveness of EPCs in improving the energy performance of properties. The plan aims to deliver an EPC system that delivers accurate, reliable and trusted EPCs; engages consumers and supports policies to drive action; and delivers a data infrastructure fit for the future of EPCs. In the meantime, the government has made EPC data available through open data, with a commitment to update this 2 to 4 times per year. Consideration is also being given as to how this data could be made available on a near-live basis. We welcome your thoughts on the use of EPCs in the **Wider considerations** section of this consultation.

[40] Nationwide, Review of the Year 2020, June 2020, p6, 8, 10, 12 and 20
[41] https://www.rbs.com/rbs/about/climate.html
[42] Green Finance Taskforce, 'Accelerating green finance', March 2018, pp.45-6
[43] https://www.gov.uk/government/publications/green-home-finance-innovation-fund-competition-successful-bids
[44] BEIS, Green Finance Strategy, July 2019, p.40, p.63
[45] https://www.gov.uk/government/consultations/energy-performance-certificates-in-buildings-call-for-evidence

Chapter 1: Disclosure of portfolio energy performance data

Rationale for disclosure

One of the suggestions received in response to the government's Call for Evidence on 'Building a Market for Energy Efficiency' was the introduction of annual reporting of average EPC ratings by mortgage lenders, with year-on-year comparisons.[46] It was proposed that disclosure of this kind would support lenders to improve the average energy efficiency of the properties they finance. Responses also suggested that disclosure could generate competition between lenders, leading to portfolio-wide improvements.

On the basis of this feedback, and following the Green Finance Taskforce's recommendations on mainstreaming consideration of green factors into lending decisions, the government is proposing disclosure of portfolio-wide energy performance information relating to domestic properties in England and Wales. In 2017, the Task Force on Climate-related Financial Disclosures (TCFD) released a set of recommendations intended to help companies to better disclose climate-related financial risk to investors and other stakeholders; however, there is not yet any specific disclosure metric that relates to the energy performance of homes. By disclosing information on the energy performance of their portfolios, lenders will possess the data necessary to determine the scale of potential investment in home energy performance improvement measures and to develop green finance products that will allow them to capitalise on this potential. It will also enable them to identify homes that may be at greater risk of default due to hign energy bills, or at potential risk of devaluation as a result of not meeting future minimum energy standards for homes.

Disclosure will allow consumers, government and other interested parties to better understand how green factors may influence lending decisions, and support efforts to measure the alignment of investments and financing with climate objectives. It will also provide support for banks to implement ambitious commitments to enable the transition to a low-carbon economy, some of which we are already seeing in announcements made by lenders earlier this year.

The proposed scope of disclosure would cover all FCA-registered mortgage lenders carrying out mortgage lending in England and Wales, regardless of the size of their portfolio.

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

EPC source data

In order to disclose EPC information on their mortgage portfolios, lenders would be required to collect the EPC data on their existing mortgage stock. This information could be obtained from

[46] BEIS, Building a Market for Energy Efficiency: Call for Evidence Summary of Responses, 2 July 2019, p.27

either the Energy Performance of Buildings Data: England and Wales (Open Data), which enables bulk download of EPC information, or the EPC Register, from which individual EPCs can be retrieved.[47]

This would include gathering information at an individual property level on the following:

- Building identifier / address information – to allow matching of properties within a portfolio to the EPC database;
- Existing EPC scores and ratings – this would enable the calculation of the existing score across a portfolio;
- Potential EPC scores and ratings – this would enable the potential energy performance improvement of a portfolio to be calculated.

For both existing and potential EPC scores and ratings, information on both the Energy Efficiency Rating (EER), an indicator of the assumed energy cost per square metre of a home, and the Environmental Impact (EI), an indicator of the carbon dioxide emissions intensity per square metre of a home[48], could be collected.

The potential energy efficiency score provided in the EPC open data does not necessarily represent the maximum energy efficiency level a property can reach; further measures could potentially be installed to achieve even higher standards. While the government does not propose to require lenders to disclose potential score information, EPC open data could be used by lenders as an indication of the potential for improvement across their portfolio and to establish what the most cost-effective improvements may be for individual properties.

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

Annual disclosure of portfolio EPC information

We propose that lenders disclose the following EPC information relating to properties in England and Wales on an annual basis:

1. the current percentage of properties in each EPC Band A to G;
2. the current average EER and EIR (CO_2) score of the portfolio; [49]

[47] Epcregister.com enables the retrieval of individual EPCs. The bulk data can be accessed via Energy Performance of Buildings Data: England and Wales (https://epc.opendatacommunities.org/); however, the Open Data will not include EPCs of those mortgagors who have opted out of Open Data and may not include the most recent EPC on a property if a new EPC has been created since the Open Data was updated.
[48] Please note that the EPC certificate has recently been visually updated and no longer displays the Environmental Impact Rating, however this information is still available through the Open Data.
[49] Average refers to the arithmetic mean score of the portfolio.

3. the percentage of the portfolio with an existing EPC;[50]

4. the gross value of mortgage lending by EPC band over the reporting period; and

5. the gross value of 'green' mortgage lending for energy performance improvement works by EPC band over the reporting period.

The information provided by 1 and 2 is required to demonstrate the current 'portfolio average' energy efficiency of a lender's portfolio at any point in time.

The information provided by 3 would enable monitoring of EPC coverage of mortgaged properties. We would expect this percentage to increase gradually over time as properties come within the scope of legally requiring an EPC at the point of sale or rental. The introduction of an improvement target, as set out in Chapter 2, would also drive an increased need for energy assessments of properties to be made, and our expectation is that lenders would require mortgagors to provide an EPC as part of the (re)mortgaging process.

The information provided by 4 and 5 would indicate the value of lending for energy performance improvement works as a proportion of the overall value of a lender's loan book.

All information to be disclosed would be aggregated to avoid the identification of any individual property or mortgagor and must demonstrate compliance with General Data Protection Regulation (GDPR).

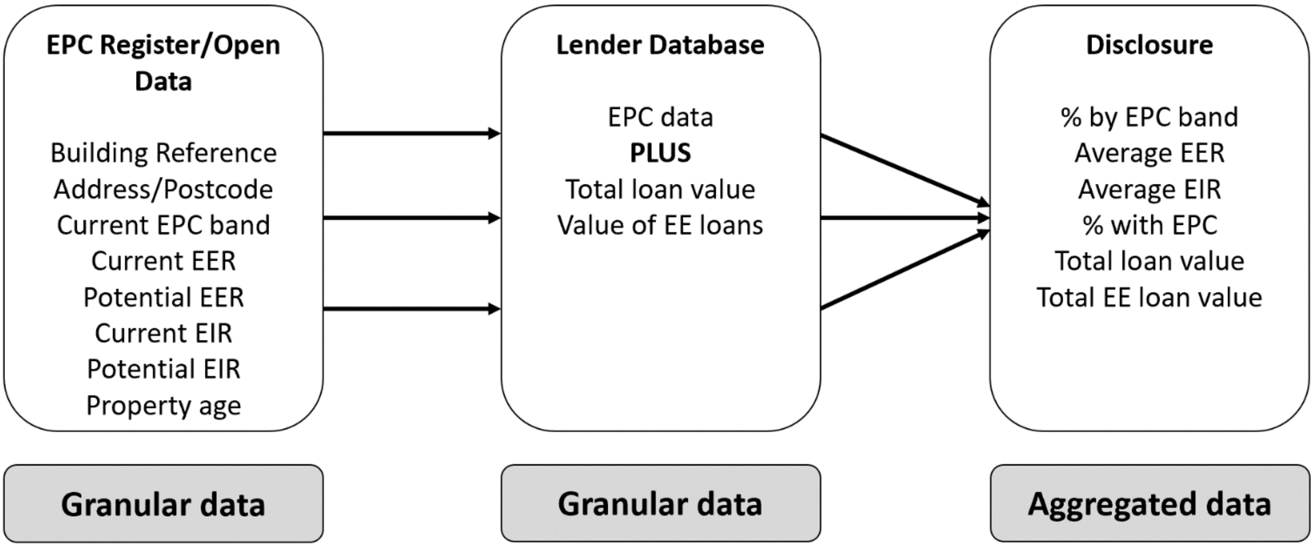

Figure 1: Data flow from Open Data/EPC Register to disclosure

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.

50 For the purposes of this consultation we are assuming that an existing EPC is the most recent EPC on a property, whether or not the period of validity has ended. This is to ensure that should the validity period be reduced from 10 years in the future, the expired EPCs do not negatively impact on a lender's % EPC coverage.

Additional information

We anticipate that lenders may want to collect additional information from the EPC Register on property characteristics (such as the property age, type or fabric construction), in order to gain an understanding of the potential to improve a specific property. In March 2020, the EPC Open Data was updated to contain the construction age band of properties before the introduction of these proposals. This information could then be used to provide targeted offers of appropriate green finance products to fund improvement works, provided lenders only target their existing customer base. We also understand that some lenders will naturally have older portfolios, which may include more hard-to-treat, less energy efficient properties. For this reason, we also propose to give lenders the option to provide additional commentary alongside their disclosure information to give further context.

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.

Reporting requirements

The government is aware of the need to limit additional burdens on lenders where possible and so we propose that disclosure takes place on an annual basis and is aligned with existing financial reporting obligations.

Our current proposal is that all FCA-authorised lenders carrying out mortgage lending in England and Wales disclose this information on their own websites, and that it is also submitted to the government to be made available on GOV.UK. However, we acknowledge that data from UK Financeshows that 19 lenders hold 90% of the market share of mortgages in the UK (with six of these holding 71% of the market share);55 lenders hold the remaining 10%,of which 21 possess less than 0.1% of the market share.[51] Given this distribution, we would welcome views on whether the reporting requirements for smaller lenders ought to be less onerous to reflect the fixed cost of reporting as a percentage of revenue.

We propose to provide public comparisons between lenders, for example by producing ‘league tables’ ranking the average EPC Band, average EER score, average EIR [52] score, the percentage of the portfolio covered by an EPC, and the value of lending for energy performance improvements. However, we would welcome proposals for alternative reporting routes for disclosure information.

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.

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.

[51] UK Finance, Annual ranking of mortgage lenders by outstanding balances and gross lending, 20 August 2020

[52] Please note that the EPC certificate has recently been visually updated and no longer displays the Environmental Impact Rating, however this information is still available through the Open Data.

Buy-to-Let mortgages

For the purposes of our analysis, we have assumed that all the policy proposals in this consultation would apply to private rented properties financed by Buy-to-Let mortgages as well as owner-occupied properties. Including Buy-to-Let mortgages in the scope of these policies is likely to drive additional action in the private rented sector, including in properties not captured by the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015. We would welcome views on whether this is a sensible approach.

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.

Trajectory to mandatory disclosure

While we consider that voluntary disclosure is appropriate in the short term, being quick to implement and less burdensome for lenders, we believe that the ultimate objective should be to transition to mandatory disclosure. However, this will take longer to introduce, since it would require primary legislation. This means that the mandatory requirement would be introduced in 2023 at the earliest. A second consultation would be carried out before regulations are laid setting out the detail of the mandatory disclosure requirements.

While some lenders are already considering energy performance in lending decisions and may be more readily able to disclose energy performance information, we acknowledge that other lenders do not currently have this capability.

Our proposal, therefore, is to encourage all lenders to take action to enable them to disclose energy performance information **on a voluntary basis prior to the introduction of mandatory disclosure**. This would allow lenders to overcome administrative and systems barriers to move towards a complete understanding of the EPC coverage of their portfolios, and to develop their data collection systems to comply with mandatory disclosure.

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

Monitoring compliance

The first datasets will form a benchmark against which to monitor progress and will be imperative for the implementation of the policy proposals discussed in Chapter 2. There will be an expectation that a lender will carry out its own internal audits to ensure its controls prevent and detect errors.

However, in order to ensure that the data provided by lenders adheres to certain standards, the government proposes that external audits be conducted, including, for example, spot checks of random sample data to confirm whether firms are producing relevant and reliable data. To minimise complexity for smaller-scale lenders and reduce administrative and compliance burdens, the government's proposal is that the expected degree of auditing be proportional to the size of a lender's market share, which could be based on the value of a lender's portfolio or the number of properties it holds.

The government understands that a significant proportion of the mandatory disclosure information is reliant on the accurate recording and distribution of EPC information. This underlying data, provided by the EPC Register or Open Data sources, will not be within the scope of the lender's internal controls and therefore the spot checks conducted by an external auditor will ensure accurate translation of this information, not the accuracy of the underlying data itself.

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.

Chapter 2: Improving the energy performance of lenders' portfolios: target-based approach

Rationale for a target-based approach

As outlined in the Introduction, the government recognises that meeting our emissions reduction targets will require multiple interventions working in tandem and that no 'silver bullet' policy will work in upgrading our homes. We acknowledge that intervention by mortgage lenders alone cannot drive energy performance improvements across the building stock, but that lenders are uniquely placed to influence mortgagors at critical trigger points such as home purchase, renovation or re-mortgage.

While disclosure will encourage transparency of energy performance data relating to mortgaged homes and may generate some competition between lenders, we believe it will have a limited impact alone. In order to meet our aim to improve as many homes as possible to EPC C by 2035, we therefore propose that disclosure is accompanied by the setting of improvement targets.

We believe a target-based approach would support this aim for the following reasons:

- Lenders are uniquely positioned to influence mortgagors' perspective on energy performance. They interact with customers around critical moments, including when a property is bought, improved or refinanced;[53]

- Ambitious targets have the potential to deliver up to 2.5MtCO2e emissions savings over Carbon Budget 4 and up to 6.5MtCO2e over Carbon Budget 5 (both Traded and Non-traded). They could deliver annual energy bill savings of £196 by 2030 for the average recipient, and create or support over 25,000 jobs per year over the policy period;

- It would require lenders to assess the potential for improving energy performance within their property portfolio and to factor energy performance into their lending decisions. This will help to send a clear signal to consumers about the importance of energy performance;

- It would provide an opportunity for lenders to develop products that promote investment in improving the energy performance of homes. Tapping into this commercial potential and developing this market could reduce the risk of homes becoming stranded assets as energy performance standards are tightened;

- There are existing requirements on minimum energy standards in the private rented sector. A consultation on tightening these requirements was published in September

[53] In Q2 of 2019, the share of gross mortgage advances for buy-to-let purposes in the UK was 13.1%, with the share of advances for owner occupation 86.9% (Bank of England, FCA, Mortgage Lenders and Administrators Statistics: 2019 Q2).

2020.[54] Target setting by lenders offers an opportunity to align landlord and lender incentives. Finance products that promote investment in the energy performance of homes that are covered by Buy-to-Let mortgages would increase the options available to both new and existing landlords , whether extending their portfolios or refinancing.

We acknowledge that the introduction of targets is not without its challenges. Most of these challengesare discussed in the **Wider considerations** section of this consultation. We would welcome feedback from respondents to enhance our evidence base on these issues, which include:

- the impact on first-time buyers, those on low incomes and those at the limit of their borrowing capacity, whom we acknowledge are likely to have been disproportionally affected by the economic impacts of the COVID-19 outbreak;
- tenure-related limitations to make energy improvements for homeowners in leasehold and shared-ownership properties;
- market impacts such as potential delays to the mortgage process and lending to poor performing properties; again, acknowledging that the COVID-19 outbreak has created additional challenges;
- the impact on homeowners in fuel poverty;
- the capacity of the energy retrofit supply chain and quality of installations; and
- consumer awareness of home energy efficiency.

Preferred option: voluntary targets with the option for a mandatory backstop

To build on promising early action from several lenders, as announced at the beginning of this year, we propose that lenders are encouraged to sign up to an ambitious portfolio-level improvement target, and that government encourages the market to develop some form of self-regulation that is comparable across lenders to achieve it.

A voluntary target period would allow lenders to test and market green finance products, allowing take up by early adopters and driving emissions savings from the outset. We would welcome views on how lenders might approach voluntary targets, as well as on the level of uptake government might expect.

Whilst voluntary targets are very much our preferred approach, and our expectation is that lenders will act without legislation, we acknowledge that lenders may prefer a mandatory target to create a level playing field across the industry. With this in mind, we will invite views on whether we should take primary powers to introduce a mandatory target to build on action taken by lenders during a voluntary phase. Any action taken under a voluntary target would count towards this mandatory backstop target.

[54] https://www.gov.uk/government/consultations/improving-the-energy-performance-of-privately-rented-homes

Expected voluntary target: portfolio average of EPC Band C by 2030

We have assessed a number of ways that an improvement target could be set in order to improve as many properties as possible without placing too significant a burden on lenders or property owners.

Our preferred voluntary target option is that lenders agree to meet **a portfolio average of EPC Band C by 2030**, chosen in recognition of the level of ambition needed to reach our net zero target, and to align with the proposed increase of minimum energy standards in the private rented sector.[55]

To meet this target, the homes within a lender's portfolio would be required to have a mean average SAP point score of at least 69. The mean average would be calculated by dividing the sum of the Energy Efficiency Rating (EER) SAP point scores of each property within the portfolio by the number of properties with an EPC.[56]

Although there are alternative ways in which a target could be set – for example, a target on all properties in a lender's portfolio to reach EPC Band C by 2035, where cost-effective, practical and affordable – a portfolio average target would allow greater flexibility.

- An average rather than an absolute level of improvement captures all properties that have improved energy performance, rather than just those below the target threshold whose EPC rating has improved;
- The impact of churn – for example, individual mortgages entering and leaving the portfolio – would make little difference to the overall outcome;
- It allows a trade-off between those properties that are harder to treat (and may struggle to reach an absolute target) and better performing homes that can still be practically and cost-effectively improved;
- An arithmetic or simple average of property SAP scores is uncomplicated. A weighted average, such as that which takes into account size or value of a property, could be an alternative option, but adds an additional level of complexity to the process.

Additionally, we could set requirements for the percentage of properties with an EPC within the portfolio to increase over time, in order to better support the development of targeted green finance products and improve the availability of energy performance data on existing homes.

We acknowledge that only those properties that are newly financed, those that undergo a product transfer, or those that are re-mortgaged after the target start date will come within the scope of improvement. However, given that the average length of a fixed-rate mortgage product is 5 years, and that up to 1.4 million properties are (re)financed each year in England and Wales, we estimate that up to 80% of the mortgage market will be within scope over the target period.

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[55] For the private rented sector we are currently consulting on proposals for all properties to reach EPC C by 2028 https://www.gov.uk/government/consultations/improving-the-energy-performance-of-privately-rented-homes

[56] This cost-based approach uses the EER score, which denotes the EPC rating of a property, rather than the EIR score, which denotes the environmental impact of a property in terms of carbon dioxide emissions. The EER score of 69 is the lower threshold of the EPC C rating, which spans from 69 to 80 SAP points.

How a lender would meet its target

It is anticipated that lenders will meet their portfolio energy performance target through measures such as:

- Energy performance awareness campaigns to identify the energy cost savings, increased asset value and other benefits (such as a warmer, healthier home) associated with making energy performance improvements;[57]
- 'Cashback' use-it-or-lose-it incentives or free energy assessments available to new homebuyers carrying out energy efficiency retrofit or installing low-carbon heating;
- Lower interest unsecured loans or secured further advance products for home improvement when a significant proportion of the loan covers energy performance improvements;[58] or
- Mortgages (or re-mortgage products), whereby homebuyers would be allowed to borrow more at lower cost on their mortgage on the condition they make energy improvements, although this is unlikely to be a preferred option due to the administrative burden it places on lenders.

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

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.

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

Agreement to a set of principles under a voluntary target regime

The government also proposes that agreement to the proposed voluntary target be accompanied by agreement to a set of guiding principles for all participating lenders to follow. These principles would include guidance on lending to poor performing properties, mortgagor exemptions and the assumed maximum spend of borrowers, as well as standards for quality of installations and customer protection. This section sets out the issues that could by covered by this set of principles.

Lending to poor performing properties

One possible unintended consequence of a target-based approach is that it will drive lenders to cease lending to poor performing properties, creating a system in which those in lower performing homes struggle to refinance, or first-time buyers are unable to find an affordable property that lenders will finance. The government is committed to avoiding distortion in the

[57] 'Fair Society Healthy Lives' (Marmot Review), 2010, report on cold homes and health and the Fuel Poverty Review (John Hills), March 2012, set out the strong body of evidence linking low temperatures to poor health outcomes.

[58] 'Cashback' incentives and conditional-mortgage products are already being trialled by lenders through the Green Home Finance Innovation Fund, which will end in early 2022.

housing market as a result of these proposals and would like lenders to act to ensure that vulnerable customers in poor performing properties are protected. We welcome views on how best to mitigate such consequences in the **Wider considerations** section of this document.

Replacement EPCs

In order to demonstrate the effect of the installation of measures to improve energy performance, the government understands that a revised energy assessment of a property will need to be undertaken and that it will be in a lender's interests to ensure this is done. Documentary evidence of the measure will ensure it is included in an updated EPC. We have modelled the cost of this additional EPC requirement in our analysis, although alternative evidence / approaches could be considered (e.g. improvements by Trustmark registered installers uploaded to the Data warehouse and data-driven methodologies to generate energy performance assessments remotely). We welcome comments in the **Wider considerations** section of this document on the likely impacts of an increased requirement for EPCs on consumers and other parties.

A potential risk of basing progress against a target on existing EPC information is that it could disincentivise lenders from encouraging mortgagors to get an EPC (where not required by law) if their homes are expected to get a low rating. As referenced above, one way of mitigating this risk could be to agree an incremental improvement in the EPC coverage of a lender's portfolio over the target period as part of a set of guiding principles.

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

Instilling consumer confidence through TrustMark

The government launched the newly reformed TrustMark quality and consumer protection scheme in 2018.[59] The scheme gives consumers confidence that a TrustMark registered business has been thoroughly vetted to meet required standards and has made a considerable commitment to good customer service, technical competence and trading standards.

We recognise that the installation of some energy performance measures requires considerable investment. The quality of the delivery of energy performance measures must therefore be of the highest standard and work carried out by reputable companies. The government could encourage lenders to promote the use of TrustMark registered businesses to customers undertaking energy performance improvements. We would welcome comments on this in the **Wider considerations** section of this document.

Mortgagor uptake and exemptions

The government assumes that the possible measures for meeting the targets listed above will act as strong nudges for mortgagors who are able to extend their borrowing to act. However, it cannot be assumed that all mortgagors that are able to access additional borrowing will do so. For this reason, for the purposes of this consultation a range of take-up rates have been modelled, with the assumption that the most cost-effective measures are installed early up to

[59] https://www.trustmark.org.uk/aboutus/what-is-trustmark

this take-up rate threshold, acknowledging that, in reality, the rate of uptake will not be smooth over the period.

The government understands that not all mortgagors will be able to take out additional financing to fund energy performance improvements in their homes, and that this proportion of mortgagors may have increased as a result of the COVID-19 outbreak. We propose that mortgagors unable to take up additional loans on the basis of affordability be exempt from the scope of an improvement target, whether under a voluntary or mandatory regime, in order to mitigate the risk that these borrowers are unable to switch products. We would welcome views on this in the **Wider considerations** section of this consultation. We would also like to work with lenders to consider ways they could work to support homeowners to improve the quality of these homes by for example, signposting them to funding.

There are also tenure types that may present additional challenges to the installation of energy performance improvement measures, for example leaseholds and shared ownership. The government would welcome views on this, including whether certain groups ought to be exempted from a target policy, in the **Wider considerations** section of this consultation.

Setting an assumed maximum spend for energy performance improvement works

The government recognises that there is a balance to be struck between delivering energy performance improvements and ensuring that the cost to mortgagors of lenders achieving their targets does not become disproportionately expensive.

For this reason, we propose to set a simple, consistent upper limit on the value of improvements that a mortgagor might be expected to make to a property, under a voluntary or mandatory target policy of £10,000 per property, inclusive of VAT. Our analysis shows that a cap of £10,000 will see approximately 40% of owner-occupied mortgaged properties in England and Wales improved by 2030 – this equates to approximately 2.8 million properties.

In developing this proposal, the government assessed a range of assumed maximum spend options to understand the improvement rates they would allow and the number of homes that would need to be targeted in order to achieve the policy aims. £10,000 was selected as the preferred option because our analysis suggests it strikes the right balance between achieving a robust ambition for the policy at a reasonable cost to mortgagors. It also aligns with the revised cap on costs for improving domestic private rented sector properties to EPC C, as proposed in the consultation Improving the Energy Performance of Privately Rented Homes. The analysis accounts for the fact that not everyone would be expected to spend £10,000; in fact, the average capital cost per household to achieve the policy aim would be c.£4,000 in our high cost assumption scenario (more information on the assumed maximum spend can be found in the Impact Assessment that accompanies this consultation).

There may be instances where a mortgaged homeowner or landlord has installed energy performance improvement measures in a property before the introduction of a lender target which, while having a positive impact on the energy performance of the property, were insufficient to improve it to a C or above (i.e. to an efficiency level that would have a positive impact on an overall portfolio average).

For modelling purposes, we have assumed that any spend on energy performance improvements from April 2021 onwards would be taken into account when determining how much could be invested on the property within the assumed maximum spend. Such properties could still be targeted by lenders for further energy performance improvements. We would welcome views on whether this is the right approach**.**

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.

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.

Incentivising early action

The government recognises the importance of incentivising the early uptake of voluntary targets in order to encourage leadership and the creation of a market for green finance products, and to galvanise the level of ambition required for the UK to close the gap on Carbon Budgets 4 and 5 and smooth the transition to net zero.

One approach could be to reward early action, for which there is precedent under the EU emission reduction targets for new cars scheme. Under this scheme, car manufacturers are given additional incentives to market zero- and low-emission cars through a capped 'super credits' system.[60] In the context of these policies, an equivalent scheme could provide lenders with credits for action in the early 2020s that could be traded for target reductions should a mandatory target be introduced.

However, incentives could lead to an overall shortfall in potential emissions reductions in the longer-term, so we would hope to strike the right balance between early action and policy ambition. We would welcome views on what form of incentive would drive uptake and how risks can best be mitigated.

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.

The option to move to a mandatory target

We know that some lenders would prefer the certainty of a mandatory target, and the level playing field this would create across the industry. There is also a risk that mandatory disclosure and voluntary targets alone may untimately drive insufficient action across the market. We therefore have the option to introduce primary legislation that would give the government the ability to set mandatory improvement targets on lenders if insufficient action risks a shortfall in emissions savings required. We view the introduction of primary powers to set mandatory targets as a fall-back measure, to be enacted only if we fail to see insufficient

[60] https://ec.europa.eu/clima/policies/transport/vehicles/cars_en

action from lenders, and a further consultation would be conducted before regulations are set via secondary legislation.

Reviewing progress against the voluntary target

We propose to review within one year of setting the voluntary target the proportion of lenders that have signed up to the target. If a majority of lenders (by market share) have signed up to the target, the voluntary target would remain and government would undertake a regular review of improvement in the energy performance of the mortaged stock.

Under such a voluntary target, government would work with industry leaders to guide the setting of the target and review progress against it. One means of achieving this would be to set up a steering committee comprising representatives of government and the main signatories to agree the core principles of the target regime. An independent auditor could then be appointed to verify reporting against targets, with progress against targets reviewed by an independent panel comprising representatives from government and other industry stakeholders, such as financial trade associations.

Should progress fall below the trajectory of improvement required across mortgaged homes to meet the 2030 target, or an insufficient proportion of lenders sign up to the voluntary target, government may look to implement a mandatory target and a further consultation would be conducted on the detail of that scheme.

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?

Penalty regime

The government is aware that effective enforcement will be key to the success of any mandatory target to improve energy performance standards of mortgaged properties. Legislation will be required to enact any mandatory policies set out in this consultation and establish the regulatory framework that will ensure consistency in the approach to disclosure and the behaviour of lenders in meeting a mandatory target (although voluntary targets remain the government's preferred option).

The government also acknowledges that financial incentives to act in compliance may be necessary to stimulate meaningful change. For this reason, we propose that financial penalties be imposed if a lender fails to meet its statutory deadlines and other requirements set out in legislation.

Calculating the penalty

It is important that the amount of any penalty is reasonable, while deterring lender non-compliance and obtaining fair outcomes for consumers and society as a whole. One option is to consider the societal impact of lost carbon savings as a result of missing the (mandatory) target. This is the approach taken for the excess emissions premium that forms part of EU legislation on emission reduction targets for new cars.[61] Information on this approach to the penalty regime can be found in the Impact Assessment that accompanies this consultation.

When penalties will be imposed depends on the approach to implementation of the targets and whether they are driven by milestones or a single implementation date.

To incentivise early action, there could be a provision for those lenders who voluntarily sign up to the target in the early 2020s, and who are on course to achieve the majority of their target, to remain on their current trajectory without any form of penalty. At the same time, those who underperform, below an agreed threshold, could be subject to a target of 100% at the end date. The detail of the penalty scheme would be consulted on before implementation.

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

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

Allocation of the penalty pot

The policy intention is that lenders incur as little a penalty as possible as they will be sufficiently incentivised to meet their targets. However, if a penalty is paid, our preferred option would be to use this money for the specific purpose of funding energy performance improvements, with a focus on the poorest performing properties and fuel poor households first, or to fund the innovation and implementation of green finance products. One option we are considering is whether to only provide access to this funding to those lenders that are on trajectory to achieve their target, which may further incentivise lenders to meet their obligations.

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.

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

Small lenders

There may be smaller-scale lenders with specialist portfolios for which a mandatory target may be disproportionately onerous to achieve. We are considering how lenders responsible for lending below a certain value threshold, or with fewer than a certain number of properties in their portfolios, could benefit from exemptions or derogations. Small volume or value lenders could, for example, have reduced target requirements.

We would welcome views on whether derogations could mitigate risks of smaller lenders being disproportionally disadvantaged by these proposals, and if so what form these could take.

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[61] If the average CO2 emissions of a manufacturer's fleet exceed its target in a given year, the manufacturer has to pay an excess emissions premium for each car registered.

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

Alternative option: a mandatory target from the start of the policy

As an alternative to voluntary target-setting with the option to move to mandatory targets, the government could require lenders to meet a mandatory target set following the first annual round of disclosure.

Whilst a voluntary target is our preferred approach, a mandatory target would create a level playing field for all lenders, supporting those that are already trying to act progressively and smaller firms with lower funding ability that may struggle to compete with the big six major providers. For the larger lenders, too, increasing the energy performance of their portfolio could reduce a lender’s competitiveness if not also done by its competitors.

The government’s preferred mandatory target option is for all lenders to meet a portfolio average of EPC C by 2030.

Question 23. Do you agree with the proposed alternative option of a mandatory target of a portfolio average 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.

Wider considerations

There are a range of factors we will need to consider in order to refine the policy proposals contained in this consultation and to ensure their successful implementation in the future. In this final section, we invite views on a broad range of factors that may interact with our proposals and the impact they may have on homeowners and the homebuying market. We also consider interactions with other policies, including regulation in the private rented sector, and the potential to apply our proposals to smaller non-domestic buildings. This section also tests a more stretching alternative policy proposal.

Data availability

EPCs were designed to be a simple and cost-effective way of enabling prospective buyers or tenants to make informed decisions about the potential energy performance of a building. EPCs are now serving a wider set of uses than that original purpose. They have been incorporated into several government policies that rely on understanding the energy performance of buildings, including the domestic and non-domestic Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015.

The policy proposals set out in this consultation are underpinned by the continued use of the EPC. As outlined in the Introduction, it is important that EPCs are accessible and of appropriate quality. The government sought views on how the EPC can be improved in its Call for Evidence published in July 2018, and the government response was published in September 2020. In the meantime, as announced in the Green Finance Strategy, the government has made EPC data available through open data, with a commitment to update this 2 to 4 times per year. Consideration is also being given as to how EPC data could be made available on a near-live basis.

While the government can provide the conditions for improved access to EPC data, lenders will be required to actively update the information they hold: for example, by asking for up-to-date EPC information at the point of re-mortgaging or a new product being offered. This may come at an additional cost to consumers over and above what they may legally be required to pay.

It will also be essential that data allowing the energy performance of a property to be identified is effectively transferred between lenders if a mortgagor switches their mortgage provider, or when a mortgage loan is sold from one provider to another. This could be through provision of the EPC itself or the EPC Report Reference Number. We would welcome comments on the consequences on lenders of collecting and transferring this additional information.

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?

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?

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

Consumer awareness

If energy performance improvement markets are to work well, homeowners, both owner occupiers and private landlords, must be fully informed on the costs and benefits of improved energy performance. Awareness in energy performance remains low, although the government has taken steps to address this, such as by launching Simple Energy Advice, a digital and phoneline service offering practical and tailored advice to help people make their homes greener and cheaper to run.[62]

EPCs

We are aware that we must go further to improve awareness of EPC ratings and recommended improvements. It is already required that EPC ratings are shown in all advertisements for sale or rental of properties. However, there is scope to increase the visibility of EPCs before, during and after the homebuying process. The Green Finance Taskforce have recommended that mortgage lenders include EPC ratings on their mortgage statements.[63]

MHCLG has recently launched a revised Energy Performance of Buildings (EPB) register. The new online register houses searchable data on over 27 million energy assessments and will continue to add new assessments as they are completed by qualified assessors. The new register makes it easier to find an existing EPC or to find an assessor to commission a new EPC. The EPC itself has been redesigned following stakeholder research to help people understand the action that can be taken to improve the energy performance of their home or building. Moreover, like other government services including MOT certificates and Road Tax Disks, the energy certificates now exist as web pages, making them easier to share by emailing the web page instead of a file. This makes it far easier for citizens, lenders and property professionals to store, view and share this vital information.

In addition, within the scope of these policy proposals, it may be helpful for consumers to find information on energy performance on lenders' websites. Government could set a requirement that lenders provide this information or direct their customers to a government-backed website, such as Simple Energy Advice.

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?

Smart meters

Smart meters are replacing traditional gas and electricity meters as part of a national infrastructure upgrade that will make the UK's energy system more efficient and flexible, enabling us to use more renewable energy and reduce our reliance on fossil fuels. With near

[62] www.simpleenergyadvice.org.uk
[63] Green Finance Taskforce, 'Accelerating green finance: Green Finance Taskforce report', 2018, p.45

real-time information on their In-Home Display (IHD), smart meters allow domestic consumers to easily understand how they can make small changes to their homes and energy usage in order to reduce their energy demand and save money on their bills.

Increasing uptake of smart meters will encourage greater consumer awareness of energy efficiency more generally. We would invite comments on whether lenders could play a role in encouraging the installation of smart meters as part of a consumer awareness exercise.

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?

Quality of improvement works

The use of the TrustMark scheme, where businesses are vetted to meet required standards and are required to provide robust consumer and financial protection, is intended to create a level playing field in which all reputable energy performance improvements installers in the UK will be part of TrustMark. It is the government's aim that more businesses are brought on board through incorporating the TrustMark scheme into other government policies, such as the Energy Company Obligation (ECO).[64]

We would invite views on whether installers or providers should have to be TrustMark approved when carrying out energy performance improvement works in mortgaged properties as a result of these policies, whether part of a voluntary or mandatory target regime.

Being a TrustMark registered business may come at additional cost to those businesses which participate in the scheme. However, lenders and mortgagors will have the assurance that the installer has been thoroughly vetted; that the highest quality standards are being adhered to; that the risk of unintended consequences is minimised; and that redress is in place if needed.

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

Unaffordable borrowing/low-income borrowers

The government acknowledges that there is a risk that mortgagors of properties with lower energy performance are priced out of improving the energy performance of their homes.

While the number of mortgages in arrears in the UK remains historically low, the government is aware that a proportion of mortgagors will borrow the maximum mortgage they can afford and any additional loan to fund energy performance improvement measures; this would make their debt repayment no longer affordable. We are also aware that mortgage arrears have increased since the last quarter of 2019 in part due to COVID-19 and that the proportion of mortgagors

[64] https://www.ofgem.gov.uk/environmental-programmes/eco/about-eco-scheme

that are likely to be exempt from the scope of additional green finance will be higher as a result. We would welcome views on what proportion of mortgagors this represents.

Under a target-based policy, those mortgagors unable to self-fund or borrow to make energy performance improvements to increase the EPC rating of their home may find themselves ineligible for preferential mortgage rates. When the term of their mortgage deal ends, they may be forced to opt for the Standard Variable Rate (SVR). The average SVR interest rate is approximately 5%, compared to 2.5% for an average two-year fixed rate mortgage.[65]

For this reason, our proposal is that existing consumers who cannot afford to borrow additional funds be exempted from the scope of a lender's improvement target, and that this condition be built in to a set of guiding principles under a voluntary target regime, and binding under a mandatory regime.

Lenders will have existing affordability criteria in place for determining how much to loan to their customers, requiring income and expenditure assessments, and testing the affordability of loans against future interest rate rises. We assume that such criteria could be adapted to account for any additional funding required to improve a property: for example, by factoring the proposed £10,000 assumed maximum spend amount into affordability calculations for new mortgagors. However, lenders may have very different approaches and there is a possibility that we will encourage lenders to be more risk-averse to protect themselves and consumers from liability. One option could be to assess affordability and apply exemptions on a form of sliding scale, to avoid a cliff edge that may drive perverse incentives or penalise those just within the affordable zone. We would also like to work with lenders to determine how best they can work with borrowers in these circumstances, to improve the energy efficiency of their homes. We invite comments on what criteria should be considered in ascertaining affordability, and views on how such criteria should be set, whether by lenders or government.

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.

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?

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

Fuel poverty

Supporting the government's statutory fuel poverty target

In 2014 the government introduced a fuel poverty target for England to improve as many fuel poor homes as is reasonably practicable to a minimum energy efficiency rating of Band C by

[65] Which.co.uk: https://www.which.co.uk/money/mortgages-and-property/mortgages/types-of-mortgage/standard-variable-rate-mortgages-a6rfd6j1j0bg, July 2019

end of 2030. Support is provided to homeowners, private rented sector tenants and social housing tenants living in or at risk of fuel poverty under the Energy Company Obligation and Warm Home Discount schemes.

The government is aware of the need to ensure that the proposals outlined in this consultation do not adversely affect those mortgagors who are defined as fuel poor, while protecting those who are just over the threshold of this definition from entering fuel poverty. Affordability checks will go some way to ensuring that fuel poor households are exempted from the scope of an improvement target, and for this reason we have not included fuel poor mortgagors in our analysis. However, we would welcome feedback on what other measures we could introduce to protect fuel poor mortgagors from any risks resulting from these policies.

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.

Energy Company Obligation (ECO)

The government is currently evaluating the design of ECO and considering what a future scheme would look like.[66] Under a future ECO scheme, the government is exploring a number of potential eligibility routes, including approaches to support households living on a low income.

Lenders will be aware of those mortgagors who have difficulty in meeting their monthly mortgage payments and, under the policy proposals in this consultation, of the EPC ratings of their properties. The government wishes to test whether lenders could provide an additional referral route to obligated energy suppliers.

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

Equality impacts

As required under the Equality Act 2010, we have considered the equality and diversity implications of the proposals contained in this document using the data available to us.

The average age of first-time buyers is thirty-three years, younger than the largest proportion of mortgagors, which sits in the middle age bands (35–54).[67] We have given specific consideration to first-time buyers in this consultation.

We also know that most ethnic minority households (including White ethnic minorities) are less likely to be in home ownership than White British households (except for Mixed White and

[66] For information on ECO3, see: https://www.ofgem.gov.uk/environmental-programmes/eco/about-eco-scheme
[67] MHCLG, English Housing Survey: Headline Report, 2018-19, 23 January 2020, p8, p.13

Asian households, where the likelihood is approximately the same). Consideration will need to be given to how we can ensure our proposals do not magnify this disparity.[68]

Twenty-two per cent of households buying with a mortgage in 2018–19 contained someone with a disability. This compares with 39% of households who owned outright, reflecting the older age profile of outright owners.[69] Aside from financial considerations, regard will need to be given to the potentially disruptive aspects of energy improvement works and whether certain works will negatively impact on protected groups, such as those with disabilities.

The government will continue to review the policies in light of its requirements under the Equality Act 2010, with due consideration given to the impacts of the COVID-19 outbreak on protected groups in respect of these policies. In particular, we will consider whether protected groups are disproportionally represented in the tranche or mortgagors at the upper limit of their borrowing capacity and how we can ensure we design the policies in such a way as to avoid negative impacts on their health, wellbeing and living costs.

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

Different tenure types/home ownership schemes

We explore below tenure types and home ownership schemes that present challenges to the installation of energy performance improvement measures. The government also welcomes comments on whether there are other concerns unique to individual building types that could lead to unreasonable burdens or expectations or could be counterproductive to improving the energy performance of the mortgaged domestic building stock.

Leaseholds

Leasehold properties, which make up 18% of the housing stock in England, offer additional complexities for a number of reasons.[70] Leases limit the works that freeholders can do to a building – and the charges they can incur – on behalf of leaseholders. Some leases do not permit freeholders to recover the cost of improvements, and since the installation of energy efficiency measures will generally involve improvement, the freeholder will not carry out such work. Leases also limit the changes that leaseholders can make to a building. For example, there may be structural works which are not within the leaseholder’s power to undertake but which could impact on the energy efficiency of their property.

We are committed to ensuring that there is a sensible outcome in situations where the leaseholder is willing to fund the improvement of their leasehold property, whether that funding is achieved through additional borrowing or by accessing a grant-based green fund.

Rather than exempt these properties from the scope of these policy proposals, one option could be to create an exemptions framework for mortgaged leaseholders that will address what

[68] MHCLG, Home ownership, 10 October 2018: https://www.ethnicity-facts-figures.service.gov.uk/housing/owning-and-renting/home-ownership/latest
[69] MHCLG, English Housing Survey: Headline Report, 2018-19, 23 January 2020, p.12
[70] MHCLG, Estimating the number of leasehold dwelling in England, 2017–18, 26 September 2019, p.1

they can and cannot change in their properties under the terms of their lease. Such exemptions could form a set of guiding principles under a voluntary target regime, or be part of the legislation governing a mandatory target regime.

An exemptions framework would reflect the inability for parties to act on some of the structural energy performance improvement measures recommended in a property's EPC and could in turn reduce the assumed maximum spend for leasehold properties. We acknowledge, however, that a prospective buyer of a leasehold property with a mortgage will not have a legal relationship with the freeholder, and that the ability of the leaseholder to improve the property's energy performance may need to be determined prior to purchasing the property. It may be challenging and costly to assess the potential for works where consent is required from the freeholder.

Shared ownership and shared equity

All of the 157,000 shared ownership properties in England are offered on a leasehold-only basis, most frequently by housing associations.[71] This means that a mortgagor in a shared ownership property is limited in the improvements they can make to their home, and will need to gain permission from their landlord (usually a housing association) to make improvements.

In June 2019, the government banned the sale of new-build leasehold houses under the Help to Buy government-funded shared equity scheme. However, approximately one in five properties sold under the Help to Buy scheme are flats, which may still be leasehold.

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?

First-time buyers

Homeownership is an aspiration for many in the UK, with 87% of UK adults saying that the ability to get on the property ladder is their main housing concern.[72] One of the government's objectives is to support people into home ownership and we are working to promote understanding of home ownership products available to first-time buyers.

The government understands that there is a risk that these proposals could make the purchase of second-hand homes less affordable for first-time buyers, or that due to a strengthening price differential, many future first-time buyers may only be able to afford lower performing properties. We also acknowledge that, at least in the short term, the impacts of COVID-19 mean that lenders' deposit requirements for first-time buyers will be as high as 15 per cent, and that borrowers seeking higher percentage mortgages may face higher interest rates as a result.

[71] MHCLG English Housing Survey: Home Ownership, 2017–18, p.7
[72] HomeOwners Alliance, The HomeOwner Survey 7th annual report, 2019, p.8

We would welcome views on how we can support people into home ownership while maintaining the ambition of these proposals.

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

Market impacts

Delays to mortgage processes

The requirement for domestic buildings to have a valid EPC when marketed for sale or rent was introduced in 2007 in a phased approach. Properties marketed before this date which have not been sold since may not have an EPC at all and those EPCs produced early in the process will now be expired (an EPC is valid for 10 years).

The policies discussed in this consulation will require a valid EPC to be obtained, if one does not already exist, in order to demonstrate eligibility for green finance products, as well as to verify improvements made to properties. Equally, these policies require assessments to be made as to whether a mortgagor is exempt from the scope of a target. Such checks may delay product switches with a mortgagor’s current lender and re-mortgaging processes with alternative lenders.

The government’s intention is that by setting a clear trajectory to 2030 through a target-based obligation, the market will respond by prioritising the collection of EPC information and the creation of green finance products. As EPC data improves and the availability of green mortgages becomes more commonplace, we believe that adaptations to processes will become streamlined.

As discussed above, both the government and lenders will have a responsibility to increase consumer awareness, and this will be significant in ensuring any changes to mortgage processes do not negatively impact on prospective and existing mortgagors.

However, we acknowledge it is also important that the information provided by other actors and intermediaries, such as mortgage brokers and comparison sites, is accurate and that consumers have access to relevant information when opting for e-conveyancing.

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?

Lending to energy inefficient properties

The government is aware of the risk that these policies disincentivise lending to energy inefficient properties. Feedback from lenders on the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 suggests that one consequence has been a refusal to lend to EPC Band F- and G-rated properties that have not registered an exemption.

Steps have been taken to mitigate this risk in the design of policy options. For example, the preferred target option requires a portfolio average improvement to EPC C, rather than a portfolio-wide absolute target of EPC C, which allows for some trade-offs to be made.

The government is aware of the risk that lending continues to EPC Band F- and G-rated properties, but that worse rates are offered to mortgagors of these properties to reflect the risk posed to lenders by these assets. With government intervention such as that proposed by these policies, there is an expectation that the market would adjust. One potential outcome may be that energy inefficient properties become cheaper. This could create a system whereby EPC F and G-rated properties become more attractive to those mortgagors at their borrowing limit, who may be unable otherwise to raise additional finance to make energy performance improvements.

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

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?

Competition in the mortgage market

We are aware that there may be impacts on competition arising from these proposals. There is already a loyalty penalty on mortgagors who do not remortgage off a lender's SVR, and there is the potential for these proposals to dissuade consumers from moving lenders further still – for example, if their property is low performing and they would face a charge if they were to switch lenders. We invite comments on what other impacts these policies may have on effective competition.

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?

Lender capability and costs

The government would like to understand what costs a lender may experience in complying with disclosure requirements (such as collection of additional data), in developing green finance products to improve its portfolio, and in making any necessary adaptations to its operating systems (such as monitoring compliance against requirements).

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.

Regulatory body

If the government were to implement the policies outlined in this consultation, there may be a need for a regulatory body. In a scenario in which mandatory targets are set, this regulatory body could monitor compliance and manage enforcement.

While we have not included a regulatory body in the modelled costs of these proposals, we would welcome views on whether a regulator should be part of the government's approach.

Should the final proposals lead to the creation of new central government arm's length bodies, then the usual, separate government approval process would apply for such entities.

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?

Supply chain

The government understands that the successful delivery of energy performance improvements in mortgaged homes is reliant on a robust and skilled supply chain that will be scaleable as the take up of energy performance measures increases.

Sending a clear signal through these policies on the direction of travel for the energy performance of mortgaged properties to 2030 will help installers to build sustainable business models and could prevent the stop-start flow of work that suppliers have experienced to date.

Private Rented Sector

Mortgage lenders play a central role in the private rented sector, with between 63% and 75% of landlords having used a mortgage to fund their first property; and at least half (49%) of landlords (those who had been a landlord for three years or less) having used a Buy-to-Let mortgage to fund their current property.[73]

There are currently no requirements in legislation for lenders to ensure that their portfolio is compliant with the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015. The government would welcome comments on whether a requirement on lenders to check that private rented properties comply with the regulations would be practicable.

[73] English Private Landlord Survey, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775002/EPLS_main_report.pdf, p. 6.

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?

Smaller non-domestic buildings

A proportion of smaller non-domestic, or mixed-use buildings – for example, shops with flats above them – require similar energy performance upgrades to homes if we are to reach net zero. Such buildings could be improved at trigger points such as the point of sale or re-mortgaging. However, some non-domestic buildings change hands via different mechanisms from homes – as part of the sale of a company for example – meaning the trigger points for non-domestic buildings are not always the same.

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?

Off-gas-grid homes

Government will be consulting separately on a regulatory framework to phase out the installation of high-carbon fossil fuel heating in buildings not connected to the gas grid during the 2020s, as committed to in the Clean Growth Strategy. These regulations are likely to require fossil fuel heating systems such as oil boilers to be replaced with heat pumps or another low-carbon heat option. The policy options for off-gas-grid are currently being developed and will be designed to ensure alignment with measures proposed here. The final decision on proposals in this consultation will take into account the impact of regulations on off-gas-grid properties to ensure that requirements on homeowners are coordinated.

The principle of installing fabric measures first

A general principle of improving the fabric efficiency of a building before heat and electricity generation – known loosely as “fabric first” – has existed for a number of years. Combined with a cost-effectiveness principle, a fabric first approach has been used to inform the way the recommendations on the EPC are generated. These are listed in the following order: 1) insulation, 2) heating and hot water[74], 3) windows and doors upgrades, and 4) electricity generation measures. However, in practice, homeowners can install measures recommended on the EPC in any order of preference they want.

To meet our net zero target, we need to have eliminated virtually all emissions from our housing stock by 2050. Energy performance measures play a crucial role in achieving the

[74] This could include replacement of older boilers with more energy efficient models which can improve the EPC of a property.

emissions savings required to meet our Carbon Budgets, meeting our statutory fuel poverty target and putting us on a cost effective path to net zero by 2050. During the 2020s we will need to install heat loss prevention measures which improve the thermal performance of our homes; this will reduce energy demand to support the energy system for a cost-effective transition to low-carbon heating.

On an individual building level, prioritising measures which improve the energy efficiency of the fabric means reducing the energy demand, lowering energy costs for the consumer, and reducing the carbon emissions of that building. This also makes homes more suitable for low-carbon heating systems which can run at lower flow temperatures. Increasing the thermal performance of a building supports the efficient operation of low temperature heating systems such as heat pumps and heat networks. We consider improvements to EPC ratings met through upgrading a home's fabric performance progress towards making these homes low-carbon heat ready.

Across the whole energy system, improving the thermal performance of buildings prior to installation/transitioning to low-carbon heating will reduce the energy demand as well as overall size and costs of the energy system. It will allow for smaller heating systems to be installed, reduce operating costs and help alleviate the risk of an increase in fuel poverty. It will further reduce primary energy demand and our dependencies on fuels through the net zero transition.

Applying a fabric first approach

Government recognises that homeowners want flexibility in the way they install the measures recommended on the EPC. However, in order to assure that insulation measures are installed prior to heating systems and electricity generation (solar PV installation), which would not lower energy demand or improve thermal comfort levels, a more targeted approach will likely be more effective.

As a principle, fabric first is informal and has no definition in legislation. Government is interested in views on how lenders can encourage homeowners to install fabric measures first. One potential way of achieving this could be through lenders providing information on the fabric first approach to homeowners when applying for a green mortgage, and this could be built into the principles of a voluntary target agreement.

We invite stakeholder views on whether this approach should be taken and, if so, how it could best be implemented.

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?

Going further: increasing our ambition

In developing these proposals, we have considered how to strike the right balance between the different priorities of cost and emissions savings while improving the energy performance of mortgaged properties. Currently, it is challenging to develop positive cost benefits for more stretching energy performance improvements, such as solid wall insulation and deployment of low-carbon heat. However, we recognise that such improvements could become more feasible in the future.

The government is expecting further advice in 2020 from its independent advisors, the Committee on Climate Change, on pathways to net zero by 2050. This will include advice on what level to set the sixth Carbon Budget (which will set a cap on UK emissions over the period 2033–37).

The government is aware that this could mean more emission savings are required from buildings over the 2020s. However, going further presents a challenge, in that at present some of the more stretching household measures have longer payback periods and do not necessarily drive the bill savings necessary to support additional borrowing or improve EPC EER ratings. We are therefore seeking views on how we could drive greater emissions savings through the proposals in this consultation.

For example, one option could be to bring forward the target date of 2030, raising the expectation of earlier action from lenders.

Another potential option could be implementing a target that uses both the current EER cost-based metric and also the EIR [75] carbon metric (i.e. a dual metric), with an increased assumed maximum spend. Including the carbon metric has the potential to drive low-carbon heating potential, but there are currently trade-offs to be made between emission savings and increasing bill costs, so any option would have to be developed carefully.

Our illustrative analysis indicates that a dual metric of EER Band C and EIR Band C with an assumed maximum spend of £15,000 could deliver 5MtCO2e over Carbon Budget 4 and 12MtCO2e over Carbon Budget 5 if applied to the preferred target option.

However, this approach would require considerable additional investment from homeowners in measures with payback periods longer than the length of a mortgage.

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?

Forward thinking: future policies that may interact with these proposals

The government acknowledges that there is no single ‘silver bullet’ policy for improving home energy performance. Policies must be coherent and incentives aligned in order to remove the barriers for investment decisions. These proposals should be viewed as one part of a suite of potential interventions.

To this end, we will publish a Heat and Buildings Strategy in due course, which will set out the immediate actions we will take for reducing emissions from buildings. These include the deployment of energy efficiency measures and low-carbon heating as part of an ambitious

[75] Please note that the EPC certificate has recently been visually updated and no longer displays the Environmental Impact Rating, however this information is still available through the Open Data.

programme of work required to enable key strategic decisions on how we achieve the mass transition to low-carbon heat.

To meet the UK’s commitment to net zero greenhouse gas emissions by 2050, future policies will need to go further, particularly to address the energy performance of owner-occupied homes. For that reason, the government has consulted on or intends to consult on additional policies that will help to deliver on this commitment, and will ensure that these policies align with the objectives presented in the the forthcoming Heat and Buildings Strategy.

- The Government has consulted on tightening standards for new build homes. These homes will be future-proofed with low carbon heating and world-leading levels of energy efficiency. The Government will respond to the consultation later this year;
- The government intends to consult on proposed changes to the energy efficiency and ventilation requirements of the Building Regulations relating to existing homes;
- We are looking at incentives and levers that could encourage homeowners to invest in energy efficiency improvements in line with our Clean Growth Strategy commitment to upgrade as many homes as possible to EPC C by 2035 where practical, cost effective and affordable. Alongside a package of incentives, we can use long term regulatory measures to provide certainty to the market and clear signals to homeowners. We will seek primary powers to enable regulatory measures to improve the energy performance of homes, and will consult in 2021 on options for these measures;
- Furthermore, the government intends to consult later this year on phasing out high-carbon fossil fuel heating in properties not connected to the gas grid.

The above actions, as well as policies that ensure energy performance improvements in the private rented sector, will help to ensure that improvements are being driven to the properties in a lender’s portfolio. Lender action, therefore, would be one of several levers acting on the homeowners with whom lenders engage.

In addition, the policies presented in this consultation will help to prime homeowners in England and Wales for possible future regulation and to drive early improvements in homes, either enabling them for tighter standards in low-carbon heating, or ensuring homeowners avoid future costs associated with compliance.

Consultation questions

Chapter 1: Disclosure of portfolio energy performance data

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

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

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.

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.

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.

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.

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.

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

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.

Chapter 2: Improving the energy performance of lenders' portfolios: target-based approach

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

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.

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 reasons why.

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

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.

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.

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.

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?

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

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

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.

Question 22. Do you think that only those lenders that are on trajectory to meet their target should benefit from these funds?

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

Question 23: Do you agree with the proposed alternative option of a mandatory target of a portfolio average 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.

Wider considerations

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?

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?

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

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?

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?

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

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.

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?

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

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.

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

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

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?

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

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?

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

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?

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?

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.

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?

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?

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?

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?

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?

This consultation is available from: www.gov.uk/government/consultations/improving-home-energy-performance-through-lenders

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