

# Home Information Packs: expensive and ineffective

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A study of how the British Government agreed to a bad piece of EU legislation and then made it even worse

*"Scrapping this frippery could pay for an awful lot of loft insulation."*  
The Economist, May 5 2007

Home Information Packs (HIPs) - set to come into force on 1 June - have been roundly criticised by estate agents, chartered surveyors and consumer groups for creating extra costs for home owners and providing little benefit. Such was the level of opposition to the scheme that the Government was forced to scrap much of its original proposals.

Unfortunately it was unable to scrap them altogether because the key part that remains - the Energy Performance Certificate (EPCs)- is an EU requirement. From 1 June 2007 an EPC will have to be commissioned each time a homeowner decides to put their house on the market. The certificate aims to show prospective buyers how "green" different properties are and where efficiency savings could be made as part of the UK's bid to reduce carbon emissions from the residential sector.

In this short briefing note we argue that the measure will be ineffective, that the way the Government is implementing the directive will make matters worse than they could have been and that the Government has grossly underestimated the costs while inflating the anticipated benefits.

## Key points:

1) Energy Performance Certificates to cost UK households up to £337 million a year.

The Government has admitted that Energy Performance Certificates (EPCs) will create a net cost to the UK economy of £1 billion by 2020, or £75 million a year. It argues that this is a relatively inexpensive way to reduce carbon emissions. It calculates that for every £40 spent on the scheme it will reduce carbon emissions by a tonne.

However, this study shows that the Government has in fact underestimated the costs of the scheme and exaggerated the benefits. For example, it had been working on the assumption that the energy efficiency survey would cost just £97. But in fact the Energy Saving Trust has estimated that the cost will be £150.<sup>1</sup> If anything, prices for the home survey are likely to be higher. With less than a month to go before HIPs are introduced, there is a chronic shortage of trained energy surveyors. According to some reports, EPCs could cost anywhere between £200 and £500.

The Government had predicted that 31% of people who got Energy Performance Certificates would change their behaviour by enough to save 10% of their total energy bill. But polling shows that only 18% of people have said they *might* act on

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<sup>1</sup><http://www.energysavingtrust.org.uk/uploads/documents/housingbuildings/energy%20certificates.pdf>

the energy rating, and in practice far fewer are likely to actually make such changes.

If we accept the Government's predictions for the number of EPCs that are likely to be commissioned and then use the more realistic assumptions that a) EPCs will cost £150 and that b) less than 18% of people will act on the energy advice provided, we calculate that by 2020 the net cost of EPCs to the British economy will be **£4.7 billion** or **£337 million** a year.

EPCs are therefore an incredibly expensive - and inefficient - way of cutting carbon output. The Government has produced a scale, known as the "social cost of carbon", which informs policy makers of the social cost caused by emissions of a tonne of carbon. This is currently around £94. We calculate, however, that the cost of cutting carbon emissions through implementing EPCs will be more than £320 per tonne.

This money could be spent much more effectively in the fight against climate change. According to the Government's own assessment, if the £337 million annual cost of EPCs was invested in onshore wind power instead it could reduce annual carbon emissions by **12 million tonnes**. Putting the money into subsidies for domestic energy efficiency (boilers, insulation, smart meters etc) could save even more.

## **2) Lack of inspectors could push costs higher**

In the short-term even these costs are likely to be gross underestimates as the Government has failed to ensure that there are enough fully trained inspectors to meet the demand for reports come 1 June. Less than 2,000 people have managed to complete the training to date and industry experts have warned that very few have actually been officially "accredited". The Government was originally aiming to train up 7,400 Domestic Energy Assessors (DEAs) but has now reduced its target to 2,500.<sup>2</sup>

## **3) Driving house prices even higher?**

The EU directive does not specify at what point in the sales process the EPC needs to be commissioned. However, the British Government is insisting that it has to be done before the house is put on the market. This is unnecessary and will dissuade many from putting their houses up for sale.

Speculative sellers currently account for around 30 per cent of the market and many of these may be deterred by the upfront costs of commissioning an energy performance survey. Industry experts have predicted that this extra cost will deter as many as one in five sellers from putting their homes on the market.<sup>3</sup>

The Government has also been accused of "gold-plating" the EU directive by insisting that a new EPC be commissioned each time a house is put on the market. The EU directive specifies that a homeowner need only commission a new EPC if their old survey is more than ten years out of date. The Better Regulation Commission has argued that the regulations "go beyond the requirements of the Directive in requiring a new EPC to be produced every time a property is put on the

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<sup>2</sup> Home pack crisis could kill housing market, Sunday Telegraph, 7 May 2007

<sup>3</sup> Daily Mail, 2 May 2007

market for sale, and by requiring its production before the property can go on the market. Yet it has provided no supporting evidence to justify this 'gold-plating'."

#### 4) Are HIPs going off the rails?

The Government had been working on the assumption that the energy efficiency survey would cost just £97. But in fact the Energy Saving Trust has estimated that the cost will be £150.

This may well be a conservative estimate. If anything, prices for the home survey are likely to be higher. With less than a month to go before HIPs are introduced, there is a chronic shortage of trained energy surveyors. With around 4,000 needed to meet the demand, as of February the Royal Institute of Chartered Surveyors estimated that there were only 300 qualified officials. The Government admitted only last week that not a single assessor has been accredited. This shortage of officials is likely to mean that homeowners will have to pay over the odds to get a certificate quickly.

There may also be a risk of higher-than-anticipated rates of non-compliance. The Government estimates that 99% of people will comply with the new rules. But the fine for non-compliance is currently set at £200 (possibly lower than the cost of the survey). Non-compliance will not result in a criminal record because it would be a civil offence, and local authorities have already said they will not prosecute non-compliers, because the cost of doing so would be too high.

## Incredibly expensive

*"More than 70 per cent of energy used by the average home is used for space or water heating. We already know that there are eight million homes without cavity wall insulation and six million without loft insulation. Why not offer them rebates on council tax or stamp duty, to get the work done? Why not abolish VAT on green refurbishments, which currently adds a punitive 17.5 per cent to every bill? Why not install a smart meter in every home, which would show people how much energy they are using? Such meters have reduced energy use by between 5 and 10 per cent in American trials, and £600 would buy a lot."*

- Camilla Cavendish , The Times, 3 May 2007

The Government has not denied that Energy Performance Certificates (EPCs) will create a net cost for the British economy. In its regulatory impact assessment it predicts that Energy Performance Certificates (EPCs) will cost the country over £2.5 billion by 2020. However, it is confident that EPCs will encourage consumers to make efficiency savings through changes to their behaviour (switching off lights, turning down heating etc) as well as spending money installing energy saving products such as more insulation and energy saving lightbulbs. They therefore estimate that when these savings are taken into account the net cost of Energy Performance Certificates will be £1 billion, or £75 million a year.

However, our research shows that not only is the Government underestimating the true cost of the EPCs, it has also exaggerated the benefits. The Government had been working on the assumption that the energy efficiency survey would cost just £97. But in fact the Energy Saving Trust has estimated that the cost will be £150.<sup>4</sup> If anything, prices for the home survey are likely to be higher. With less than a month to go before HIPs are introduced, there is a chronic shortage of trained energy surveyors. (see below)

The Government had predicted that 31% of people who got Energy Performance Certificates would change their behaviour by enough to save 10% of their total energy bill. But polling shows that only 18% of people even say they might act on the energy rating, and in practice far fewer are likely to actually make such changes.

By using the Government's predictions for the number of EPCs that are likely to be commissioned and using the more realistic assumptions that a) EPCs will cost £150 and that b) less than 18% of people will act on the energy advice provided we calculate that by 2020 the net cost of EPCs to the British economy will be £4.7 billion or £337 million a year.

EPCs are therefore an incredibly expensive - and inefficient - way of cutting carbon output. The Government has produced a scale, known as the "social cost of carbon", which informs policy makers of the social cost caused by emissions of a tonne of carbon. This is currently around £94. We calculate, however that the cost of cutting carbon emissions through implementing EPCs will be more than £320 per tonne.

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<sup>4</sup><http://www.energysavingtrust.org.uk/uploads/documents/housingbuildings/energy%20certificates.pdf>

This money could be spent much more effectively in the fight against climate change. According to the Government's own assessment, if the £337 million annual cost of EPCs was invested in onshore wind power instead it could reduce annual emissions by 12 million tonnes. Putting the money into subsidies for domestic energy efficiency (boilers, insulation, smart meters etc) could save even more.

#### *Lack of inspectors to push costs even higher?*

*"The main risk identified is the potential lack of energy assessors to carry out the inspections and produce energy certificates... If there is a shortage of inspectors this may drive up costs in the short-term and lead to a lower level of compliance in some sectors."*

- UK Government Regulatory Impact Assessment

In the short-term even these costs are likely to be gross underestimates as the Government has failed to ensure that there are enough fully trained inspectors to meet the demand for reports come 1 June. Less than 2,000 people have managed to complete the training to date and not a single inspector has been officially "accredited". The Government was originally aiming to train up 7,400 Domestic Energy Assessors (DEAs) but has now reduced its target to 2,500.<sup>5</sup>

This has led to fears that in the first few months of the scheme homeowners will be charged up to £500 while there is still a shortage of inspectors. Alistair Herriot from House Inspect, a DEA training centre in Hampshire told a prospective inspector: "There is a shortage of assessors at the moment, so supposing someone says they are desperate for an energy assessment, you could say, 'I am fully booked up for the next four days but I might be able to squeeze you in for a 25% premium. I will tell Mrs Smith I will be an hour later.'" <sup>6</sup>

Another trainer, Stephen Calaghan, has predicted that DEAs would be able to charge even more than a 25% premium. He said, "Generally, the public will never get to know the real cost of the EPC". He suggested that inspectors could charge "premium rates" of £500 if the homeowners needed the job done quickly.<sup>7</sup>

#### *Driving house prices even higher?*

*"We envisage a detrimental effect on first time buyers from rising prices, shortage of supply and abortive cost with little discernible benefit if the policy is introduced in its present form."*

- Royal Institution of Chartered Surveyors

Furthermore the requirement to have an EPC commissioned before the house goes on the market - rather than at the point of sale - is unnecessary and will dissuade many from putting their houses on the market.

Speculative sellers currently account for around 30 per cent of the market and many of these may be deterred by the upfront costs of commissioning an energy performance survey. Industry experts have predicted that this extra cost will deter as many as one in five sellers from putting their homes on the market.<sup>8</sup>

<sup>5</sup> Home pack crisis could kill housing market, Sunday Telegraph, 7 May 2007

<sup>6</sup> How to earn £50,000 a year by totting up the light bulbs, Mail on Sunday, 15 April 2007

<sup>7</sup> Get Hip quick (no experience required), Sunday Telegraph, 22 April 2007

<sup>8</sup> Daily Mail, 2 May 2007

This could obviously have a negative effect on the housing market. If demand continues but supply slows, that will have the inevitable result of causing house prices to rise still further. Higher house prices could persuade the Bank of England that further interest rates are necessary in order to stave off inflation, leading to higher mortgage payments for all homeowners.

The EU directive does not stipulate when the EPC needs to be commissioned. The Government argues that it wants the EPC to be prepared at the point of marketing in order that it can feed in to people's decisions when they are buying a house. Opinion surveys have suggested however that people do not trust, and will pay little attention to the EPC. A survey commissioned by the website Primemove.com has found that 82% of home movers would disregard the results of the Energy Performance Certificate. Even if people trust what they are told by the survey it is unlikely to take priority over other issues such as location and price.

It would therefore make sense for the EPC to be carried out just before the contracts are exchanged as this would be less likely to dissuade owners from speculatively putting their house on the market.

#### *“Gold-plating” adds extra cost*

The Better Regulation Commission has argued that the UK regulations “go beyond the requirements of the Directive in requiring a new EPC to be produced every time a property is put on the market for sale, and by requiring its production before the property can go on the market. Yet it has provided no supporting evidence to justify this ‘gold-plating’.”

The Government has gone much further than it is required to by the EU directive. The EU rules stipulate that before a house is sold the buyer should be shown the property's Energy Performance Certificate (EPC) - which should be no more than 10 years old. But the British Government has decided, against expert advice, to force homeowners to have a new survey commissioned every time they put their house on the market - even if an EPC was only carried out only recently. The Government claims that this will result in a greater take up of energy efficiency measures but has presented very little evidence to back this up.

The Government argues that 10 year old EPCs are unlikely to be seen as authoritative and useful. If it is assumed - as the Government does - that there is a high take-up in new technologies post-survey it seems unlikely that repeating the survey within a few years will generate many benefits. It will however generate extra costs for homeowners and buyers.

Unless energy efficiency improvements have been made to the property (such as cavity wall insulation or the replacement of a boiler), it is difficult to see why a new energy performance assessment should be any different from the previous one. And, if energy efficiency improvements have been made, it will be in the vendor's interests to provide an updated EPC, so it would make better sense if the Government left this to the market to decide.

## Ineffective and untrustworthy

*"We do not believe, certainly in the short to medium term, that buyers will be influenced in their choice by the EPC and it is inconceivable that potential sellers will carry out expensive improvements before marketing."*

- Peter Bolton King, Chief Executive, National Association of Estate Agents

*"LACORS does not believe that the impact of carbon emissions or cost of fuel bills of their proposed home purchase will be of paramount importance to consumers when compared to other factors such as location and price."*

- Wendy Martin, Director of Policy, Local Authorities Coordinators of Regulatory Services

*"There is no evidence that EPC's will reduce carbon emissions from homes. If they do they should be supported. It is wholly inappropriate to link EPC's to HIPs. There were several methods by which EPC's could have been promoted in a far more cost effective and efficient manner. The government has persistently refused to listen to reasoned and informed argument from major stakeholders in the industry on this issue".*

- Paul Marsh, Deputy Vice-President, Law Society

Many of the expert bodies who have been advising the Government on Energy Performance Certificates have warned that their potential benefits - in terms of cutting carbon emissions - are overstated and that people will pay little attention to them. Given the barrage of criticism there has been from industry bodies, regulators and investigations by national newspapers it is unlikely that households will place a great deal of trust in the certificate - particularly if they perceive that the inspectors lack property market experience.

There are already worrying signs that the public will not trust the results given to them by the energy inspectors. A survey commissioned by the website Primemove.com has found that 82% of homemovers would disregard the results of the Energy Performance Certificate. There have already been complaints about inaccuracies and that the one-size-fits-all approach of the forms means that much of it is irrelevant to many properties over a certain age.

For example one homeowner who had a survey commissioned recounted, "The main roof got a Very Poor because he said it had no insulation. But it is thatch, which is two feet thick and more in places, so how can this be? The assessor said he didn't count thatch, he only counted insulation applied to the top of the actual ceiling... At the moment he estimates I am spending £197 on lighting, £2,422 on heating the rooms, £193 on hot water, £2,812 overall. If I make all the changes he suggests - new glazing, insulated ceilings, low energy light fittings, the lot - it would reduce my bills to £2,072, which would save me £740 a year. But I looked at last year's bills and I spent £2,039, which is £33 less than he thought I could do after all those changes." This customer was charged £500 for the whole Home Information Packs - of which the EPC was part. He thought he had been "taken for a rather pricey ride." <sup>9</sup>

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<sup>9</sup> "Condemned by the man from the energy police", Daily Telegraph, 8 May 2007

The Society for the Protection of Ancient Buildings (SPAB) has expressed concerns that EPCs are too geared up for modern properties and that the energy inspectors are not getting adequate training in order to be able to make proper recommendations for older buildings. Douglas Kent, SPAB technical advisor, has said, "The software for the energy assessment ratings is geared to modern buildings... Assessors aren't, in our view, getting adequate training, and alarm bells are starting to ring about how these reports are being implemented. Old buildings often have thermal mass and inherent sustainable qualities which aren't taken into account. It is no good stuffing them to the hilt with environmentally efficient extras without taking into account the damage it will do to the historic fabric."

Kent points out that it is very important for old buildings to be able to breathe, and that over-insulating could cause mould, damp, and possibly increased asthma. "If the energy assessors get the projected heating costs incorrect, which is quite likely, then owners will soon start to take it all with a pinch of salt. There will be huge problems."<sup>10</sup>

The Government hopes that by including the EPCs at the beginning of the home selling process it will encourage people to consider a home's energy efficiency before buying the property. Laudable a goal as this is, it is unlikely that all but the most environmentally conscious buyers will ever prioritise energy efficiency over factors such as location, cost, number of bedrooms, size of the garden etc. These buyers would also be the most likely to independently commission their own EPC to see where they could make improvements.

It is also unlikely that the EPC will make much of a difference to people's bids. Under current house-selling conditions it is often much more about getting an offer in quickly rather than spending days haggling over the price because of an unfavourable energy efficiency report.

### *Lack of proper trials*

The Royal Institute of Chartered Surveyors has argued that the Government is wrong to push through new regulations - which will incur considerable costs for British households - despite conducting only very limited trials, which still have not reported back their full findings.

In a recent report they said:

*"It is normal government policy to gather evidence before introducing major new policy initiatives of this magnitude. In this case, government has limited evidence based on area trials led by companies with a vested interest in making this policy work. Government has funded these trials and consumer participants have received free HIPs and free Home Condition Reports. We do not believe that the evidence from these trials is robust."*<sup>11</sup>

Academic research has suggested that the Government is exaggerating how effective the Energy Performance Certificates will be in changing people's behaviour.

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<sup>10</sup> Ibid

<sup>11</sup> RICS view: "HIPs and Energy Performance Certificates"

For four weeks in 2001 customers of the Woolwich bank and their surveyors, Ekins, sent out a Home Energy report similar to the guidelines set down by the Government. The survey found that the people surveyed intended to act upon just 27% of the recommendations made to them. It should be remembered however that the results only showed *intentions* - the actual rate of take up would have been substantially lower. This evidence suggests that the Government's assumed take-up of advice - at 31% - is wishful thinking.<sup>12</sup>

## Poor implementation

Another key problem with the way the British Government has decided to implement the EU directive is the assessment system that it has set up. Domestic Energy Assessors are not required to have any previous property or surveying experience and there are serious doubts about the system set up to monitor their performance and compliance.

### *Rigorous training?*

The prospective assessor is not required to have any previous experience of working in property or surveying. Rather, having a mere "interest in properties" is deemed sufficient. After undertaking a six-week distance-learning manual, a three-day "practical training course" and passing two tests, the candidate becomes a fully qualified DEA with a Domestic Energy Assessment VRQ (vocational qualification equivalent to an A-level). The course was described as "hardly rocket science" by one candidate and a "doddle" by another - "it's mostly about how to knock on the door correctly and checking your shoes for dog muck first."<sup>13</sup>

There are also fears that the home inspectors will not be given appropriate criminal bureau checks. Only a "basic" criminal records check will be carried out which has led many to question whether the scheme could be taken advantage of by criminals. In order for energy inspectors to be fully qualified they need to go through a lengthy process of accreditation once they pass their exams, which includes the criminal records check and a process of certification. Just last week the Government admitted that not a single inspector had achieved full accreditation status. Given the lengthy periods of time that it takes for criminal records checks to be carried out industry experts are predicting that there will be a real shortage of fully accredited inspectors come 1 June.

### *Lack of enforcement*

The Local Authorities Coordinators of Regulatory Services (LACORS) have also argued that the lack of strong enforcement provisions "means that the regulations are likely to have limited impact".<sup>14</sup> They point out that breaches of the regulations will only be treated as a civil offence - with a maximum penalty of £200 - in the same way as other consumer protection law, including offences by estate agents for misdescribing property. They predict that few local authorities will even bother to take offenders to court as the costs will of doing so will be

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<sup>12</sup> "Private sector renewal for increased energy efficiency: the potential of the seller's pack as a vehicle for domestic energy advice", Parnell et al, 2002.

<http://www.york.ac.uk/inst/chp/hsa/papers/parnellnew.pdf>

<sup>13</sup> "Get Hip quick (no experience required)", Sunday Telegraph, 22 April 2007

<sup>14</sup> Merits of Statutory Instruments Committee, 18th Report of Session 2006-07

prohibitive. The Government is seemingly oblivious to these worries - it has predicted that 99% of homeowners will comply with the regulations.

*In a letter to the House of Lords they argued, "We feel this level of penalty is very low to provide an incentive for compliance. Furthermore we believe it unlikely that local authorities will pursue non-payments of the fines because civil court action is expensive and local authority trading standards staff have no rights of audience in the County Court, whereas they do in the Magistrates Court, meaning they have to pay for lawyers to attend court. In addition, the HIPs regulation enforcement provisions mean that if a trading standards officer carries out any routine checks or follow up complaints where it is suggested that someone does not have HIP, then that person is not required to produce one immediately and indeed has 7 days to be able to produce one after a request by a local authority. Furthermore, a person is not required to comply with such a request if he has a reasonable excuse for not complying".*

There are also doubts about how robust the system for monitoring the quality of EPCs is. For example, the Government is preparing training for Trading Standards Officers on Energy Performance Certificates but it will not expect them to assess the quality of certificate provided.

As an official from the Department of Communities and Local Government told a House of Lords Committee:

*"What the trading standards officer is not required to do, and neither is the estate agent, is to check that the energy assessor has prepared the Energy Performance Certificate to an appropriate standard. That is something that requires technical expertise that it is not reasonable to expect either an estate agent or a trading standards officer to have... The job is to make sure that the HIP is produced and has the documents in it that it should have. We would not expect the trading standards officer to express a professional judgment on whether the Energy Performance Certificate had been prepared to an appropriate standard".<sup>15</sup>*

Rather it will be left to the accreditation bodies to make random checks to make sure "that Energy Performance Certificates are producing reliable results". The British Government has taken a particularly bad approach to implementing the EU directive. The complicated training and accreditation system has come in for particular criticism, as well as the lack of experience of the inspectors. Other countries seem to have taken a more sensible route. In Slovenia for example, the country's chartered engineers are being trained to issue the EPCs. Had this approach been taken here it would certainly have given the public more confidence in the system and ultimately the reliability of their EPCs.

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<sup>15</sup>Merits of Statutory Instruments Committee, 18th Report of Session 2006-07