

Getting Britain's fuel poverty scheme on track to deliver

April 2023

1. Introduction

The Energy Company Obligation (ECO) is the government's landmark scheme for addressing fuel poverty through energy efficiency and heating installations. ECO has played a vital role delivering new boilers, heating controls and energy-saving insulation measures to households that could otherwise not afford them. It provides immediate relief to struggling families and can reduce their long-term exposure to rising energy prices through energy performance. ECO has saved low-income customers £17.5 billion in lifetime energy bills since 2013, and saved the average home treated £290.¹

Following delays to the introduction of the fourth phase of ECO, the scheme is yet to reach its full potential. The previous phase of the ECO scheme version (ECO 3) was replaced by the ECO 4 in April 2022. Since then, the number of installations made under ECO have fallen off a cliff-edge. There were nearly 80,000 measures in 30,000 homes by the end of January when including ECO 3 Interim delivery.² This is 6.6% of the 450,000 homes ECO4 was estimated to be able to support, in the first 6 months of the four year scheme. Installers are warning of the collapse of supply chains required to deliver the UK's flagship fuel poverty scheme. According to recent analysis by the Installation Assurance Authority, there are now fewer than 10,000 people involved in the industry and public-funded schemes, whereas in 2012 there was 54,000.³ Urgent attention is needed to address the challenges which are limiting the scheme and to build back the number of installers that underpin delivery.

2. Factors limiting ECO delivery

While there have always been 'teething' issues to be resolved while moving between the different ECO scheme versions, there are concerns that the recent collapse in numbers under ECO 4 represents a more structural problem, due to the way that the scheme has been set up. Key issues are outlined below.

- **Difficulty finding properties that meet the minimum requirements (MR).** Installers and energy suppliers report that they have found that around 90% of qualifying fuel poor households cannot have works delivered, as either their properties cannot meet the MR, or it would be economically unviable to meet the MR (which require the property to move up 2 SAP bands to band EPC D or higher). In particular, installers are reporting difficulties proving how higher EPC bands (such as band D) and on-gas properties can meet the MR. This means search costs are high, and the scoring system has resulted in greater installer training needs and complexity, making the scheme more expensive to administer. The scoring system, or need to meet the MR fully, is the main issue holding back delivery.

¹ <https://www.e3g.org/wp-content/uploads/Energy-Company-Obligation-Briefing-E3G.pdf>

² <https://www.gov.uk/government/statistics/household-energy-efficiency-statistics-headline-release-march-2023>

³ https://inews.co.uk/news/how-tens-of-thousands-of-homes-missed-out-on-energy-saving-measures-just-as-bills-rocketed-2228648?utm_source=Twitter&utm_medium=Echobox=1681716513

- **Meeting the minimum SAP requirements is too expensive for most properties.** The strict requirement to raise the property's SAP score by two bands has led to needing higher investment in the heating systems, leaving these properties out of scope. These deeper retrofits mean that projects are achieving typically higher annual bill savings (ABS) than assumed in the Impact Assessment.
- **Installer risk of meeting requirements.** Given the challenges involved in meeting all of the minimum requirements, installers who previously relied heavily upon the ECO programme are looking elsewhere, including other public-administered schemes and directly with households, over ECO 4. Installers have noted that without changes to ECO 4, they are unlikely to be able to support its delivery.
- **ECO 4 cost assumptions.** The installation cost assumptions within the ECO 4 impact assessment do not reflect current market conditions. The application of a 60% increase in estimated costs for cavity wall and loft insulation in the recent Great British Insulation Scheme consultation indicates the extent by which costs have increased in the past year. In response to the consultation, the government referenced new evidence regarding the costs of installing measures, noting that for cavity wall insulation the cost would be higher still.⁴ Installers are reporting multi-week delivery period waits from receipt of orders for some fabric measures and heating systems – further exacerbating delivery challenges.

3. Impact on households and the supply chain

These challenges and delays are having serious implications for installers, energy suppliers and households. Following dialogue with installers, energy suppliers and fuel poverty experts, the following impacts have been identified.

Installers and energy suppliers

- **Installers are moving away from ECO, reducing capacity to delivery:** With many of the government-backed retrofit schemes aiming at similar target groups – and some of the local authority led schemes like the Homes Upgrade Grant (HUG) more straight forward to deliver than ECO 4 – some of the larger installers (including Aran) have shifted to focus on these schemes. Steps should be taken to ensure the Great British Insulation Scheme (GBIS) does not further exacerbate this issue.
- **High upfront costs and bureaucracy limit up-take:** High upfront costs and a high drop off rate makes ECO 4 an expensive scheme for installers to consider working on. PAS 2035 standard requirements require more manpower to administrate, and installers are reporting significant challenges recruiting labour. While installer firms are trying to expand the availability of labour in line with the scale of the schemes, the extra input needed on every PAS job makes it a slow process to get staff trained to a satisfactory level. According to one installer, for PAS measures the productivity is about 10% of the volume achieved on schemes which are not PAS – meaning for every one job a PAS project coordinator delivers, a non-PAS one can deliver 10 in the same timeframe. While standards and assurance are critical for building the market, and industry is supportive of the Each Homes Count review and PAS standards, it is important that compliance is cost-effective. There is a broader need for focus on recruitment, labour, and skills to ensure the UK has the skilled workforce to deliver.

⁴ Page 20,

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1148327/design_of_the_energy_company_obligation_2023-2026_-_gb_insulation_scheme_-_government_response.pdf

- **Early delays created apathy and drop-off:** The significant delays to the official introduction of ECO 4, and further additional delays before Ofgem published the rules in October 2022, meant that many installers had to turn away from ECO in order to stay afloat. Those installers are now reluctant to return to what seems a much more difficult scheme. Significant delays meant there was no stable base for many firms to make investment choices to expand.
- **Lead generators and challenges with customer acquisition.** Lead generators were the backbone of ECO 3 delivery, but installers report they have largely stopped working on ECO 4, so the volume of homes coming via that route is much lower. The number of people who have left the industry has been described as “phenomenal”. Installers report that half of their lead generators have gone. This is linked to the challenging minimum requirements: installers have noted that since “*so many homes just are not viable*” under the scheme, “panning for gold” in the foothills of Wales and Scotland *be fairly limited*”. More is needed to boost lead generation, including considering the role of retailers.

Households

- **Currently, millions living in gas-heated, modest sized homes in fuel poverty will not be able to access funding via ECO.** As an example, since April 2022 one installer received around 400 ECO leads via utility referrals, local authority referrals, and calls to installers. Of those, 95% fail to progress simply as the MR couldn’t be achieved or the cost of the works to hit the MR is significantly higher than the available funding.
- **The vast majority of eligible individuals drop out** as the home cannot meet the MR, and/ or the available funding isn’t there to consider it to be done. This is because of the difficulty finding eligible households with viable measures deliverable in the cost envelope.

4. Next steps: Solutions to get ECO back on track

Installers and energy suppliers are keen to work collaboratively with the government to address these issues and propose solutions to navigate these challenges and ensure that the supply chain is ready to deliver ECO 4 and the Great British Insulation Scheme. This does not require going back to the drawing board altogether, but rather moving forward pragmatically to build on the existing scheme. We note the urgency of finding solutions to prevent the further collapse of supply chains over 2023 – which would prevent even more fuel poor households from receiving vital energy efficiency support before bills are predicted to rise again next winter.

- **Widen the eligibility for homes and revise scoring criteria.** Consider the following adaptations:
 - **Relax the minimum requirements:** The current scoring methodology means that homes which are generally more viable, (EPC F and G properties) are nearly always off-gas. DESNZ should relax the EFG minimum requirement to support more homes. This could be supported by a declaration from the Retrofit Coordinator, confirming that all feasible measures have been installed. Other measures to relax the minimum requirement could include reducing the proportion of F and G houses, removing insulation preconditions for D cap homes, and considering an uplift to ABS for gas heated homes to ensure more properties are viable.
 - **Social housing and private rented:** Boost the proportion of homes in these tenures that can be covered under ECO 4.

- **Bring back disability payment as a qualifying criterion.**
- **Reform local FLEX delivery channels** to reflect real-life circumstances and regional differences. For example, a person in the southeast on £35k has a much higher cost of living as a person in Burnley on the same income. A single person earning £30k qualifies but a working couple earning £32k with children who would potentially need the help more doesn't qualify. Significant evidencing requirements for declarations is deterring local authorities from participating. Currently, Local Authorities are generally unengaged with ECO 4, and view it as too complex and risky to deliver. DESNZ should simplify the approach to LA Flex such that Ofgem can only reject declarations from local authorities if they are found to be fraudulent rather than poorly evidenced, as this creates unnecessary risk and impacts lead generation. This can be underpinned by additional engagement with Local Authorities to boost their uptake of the scheme.
- **Revise cost assumptions in line with the Great British Insulation Scheme to ensure the economics of ECO 4 stack up:** This may include needing to reduce the scheme in size to reflect the actual costs of delivering ECO 4 and accepting it will be a smaller volume of homes treated as was in the initial consultation for the scheme and the cost will be higher in particular for smaller homes.
- **Extend ECO 4** to allow the revision of cost assumptions and/or targets and give industry time to catch up from the slow start.
- **Skills and supply chains:** Make long-term funding available for training to boost the supply chain in the long-term and consider measures to boost recruitment and careers in the retrofit industry to boost the supply chain for the long-term.
- **Engagement with industry:** Coordinate a roundtable with installers, energy suppliers and other industry and fuel poverty experts to agree necessary changes to ECO 4.

5. About the Energy Efficiency Infrastructure Group (EEIG):

The EEIG is a broad-based coalition of over 25 industry groups, NGOs, charities and businesses asking for rapid improvement in energy efficiency policy for UK homes and buildings. Energy efficiency at scale is the litmus test for a credible pathway to net zero emissions and ending fuel poverty.

While this brief represents the views of the EEIG as a whole, it does not necessarily represent the individual views of its members.

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