

Why the UK's fuel poverty alleviation scheme is failing to deliver, and how it can be improved

Summary

- Soaring energy prices are hitting the least well-off in society the hardest. With fuel poverty at an all-time-high, it should be a national priority to install energy saving measures into homes across the country to reduce bills this winter.
- Worrying, however, over the past year, the number of installations under the cornerstone fuel poverty alleviation scheme – the Energy Company Obligation – fell off a cliff-edge and are yet to recover. Tens of thousands of eligible homes are missing out as a result.
- Industry, fuel poverty and green groups encourage the government to move ahead at pace with changes to the scheme to make it easier for eligible households to access support through consulting on changes to the 'Minimum Requirements'.
- Local Authorities must be given more resources and capacity to deliver the Flex scheme, with long-term certainty to build retrofit teams which can deliver area-based projects.

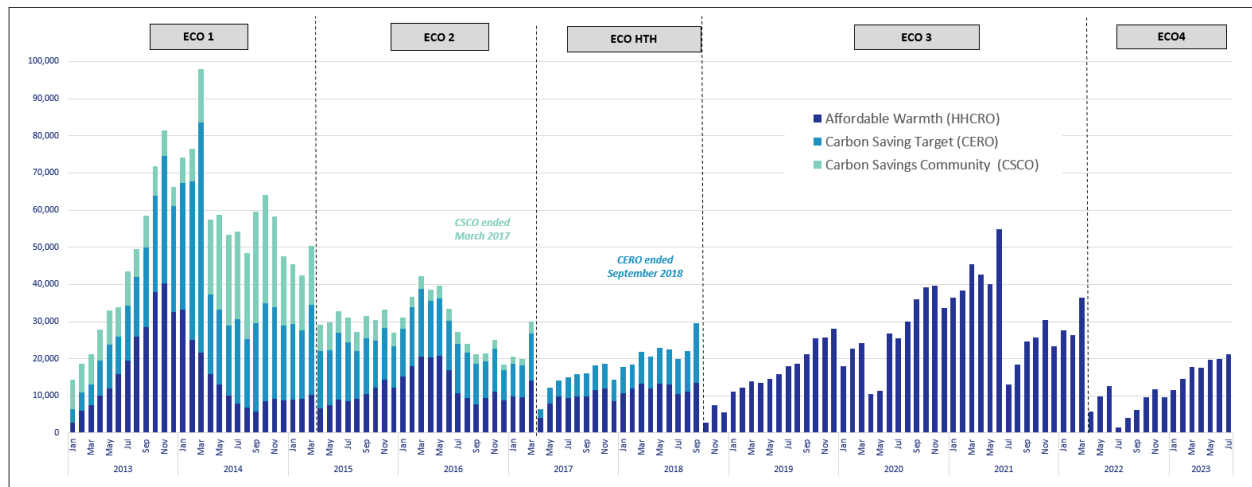
Background

The Energy Company Obligation (ECO) is the government's landmark scheme for addressing fuel poverty through home retrofits. ECO has played a vital role delivering energy-saving measures, including insulation and heating measures, to households that could otherwise not afford them. It provides immediate relief to struggling families and reduces their exposure to rising energy prices. The latest iteration of the scheme, ECO 4, was designed with the intention of upgrading 450,000 homes: cutting on average £300 off their energy bills, preventing 15.08 Mt of carbon emissions over the total lifetime of the measures.

The gas crisis has made ECO more essential than ever, with hundreds of thousands of additional households pushed into fuel poverty. However, despite growing consensus around the benefits that energy efficiency can offer to permanently lower bills and support healthier homes; since the introduction of ECO 4 in April 2022, the number of installations delivered under the scheme initially plummeted, and are yet to get back to the levels they were before the gas crisis. This means that fuel poor families and households who are eligible for ECO are heading into another winter of unnecessarily high bills.

According to the latest official figures, under ECO4, 166,400 measures have been delivered. Between April 2022 and July 2023, nearly half of measures installed were heating controls. Of the rest, 12% were boilers, 10% were cavity wall insulation, 15% loft insulation, and only 6% were solid wall insulation.¹

¹ <https://www.gov.uk/government/statistics/household-energy-efficiency-statistics-headline-release-september-2023>



While it is not uncommon for new versions of ECO to take time to get up to speed, installers are warning of a collapse in supply chains required to deliver the UK’s schemes. According to a 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 were 54,000.

Overview of challenges holding back schemes

The Energy Efficiency Infrastructure Group has set out in a previous paper key challenges which are preventing ECO 4 from delivering at scale.² These remain pertinent:

- **Difficulty and costs associated with 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 requires the property to move up two Standard Assessment Procedure (SAP) bands to band EPC D or higher). In particular, installers are reporting difficulties proving how higher EPC rated homes (such as those which are already band D) and on-gas properties can meet the MR. This challenge in turn means search costs are high. The scoring system has also resulted in greater installer training needs and complexity, making the scheme more expensive to administer.
 - **This means that smaller homes are missing out:** The minimum requirements have left ECO 4 favouring large, detached houses off the gas grid - leaving many fuel poor households living in smaller terrace homes out of scope. As constructed ECO 4 is perversely advantaging those in the biggest homes that are typically off grid with reported over 35 properties having £135,000 of investment as at April. The average bill savings (ABS) score per property is correspondingly higher than assumed in the Impact Assessment. As a result, fewer households will be treated overall (potentially 50% lower than the 450k assumed).

² <https://www.theeieg.co.uk/media/1135/eco-delivery-briefing-eeig.pdf>

- **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 Great British Insulation Scheme consultation indicates the extent by which costs have increased in the past year. On top of this, installers are reporting multi-week delivery period waits from receipt of orders for some fabric measures and heating systems – further exacerbating delivery challenges.
- **Costs of PAS 2035 compliance remain high,** with installers reporting that they are around £0.45 in every pound on ECO delivery. Installers report that extra time is required, between 40-70 days per measure approved, compounded by labour limitations caused by supply chain issues and PAS 2035 requirements. There are concerns that this could limit the delivery of the Great British Insulation Scheme too.
- **Installers are moving away from ECO, reducing supply chain capacity to deliver:** Given the aforementioned 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 and new build homes, over ECO 4. With new funding now up and running for other retrofit schemes, including the Home Upgrade Grant and Social Housing Decarbonisation Fund, installers are turning away from ECO 4. Since there has been no overall increase in the number of installers, this reduces capacity to work on the fuel poverty programme.

Unlocking the potential of Local Authority led delivery

Local Authorities have the potential to play an important role in boosting the delivery of ECO 4. ECO Flex is a household referral mechanism within the [ECO4 scheme](#) which enables Local Authorities to widen the eligibility criteria for ECO, allowing them to tailor energy efficiency schemes to their respective area. Under ECO4 Flex, a participating Local Authority can refer households that it considers to be living in fuel poverty or on a low income and vulnerable to the effects of living in a cold home. While ECO4 Flex is optional, energy companies can deliver up to 50% of their ECO obligation under this mechanism.

Despite the potential of ECO Flex to deliver up to half of measures under ECO4, so far, only around 14.5% of measures have been delivered via this channel.³ Following interviews with Local Authorities, we have identified that the key issue holding back local-led delivery of ECO is limited internal capacity. According to one Local Authority interviewed, *“The concept that we’ve got staff with capacity to sift applications, answer customer enquiries and sort out complaints when things go wrong given the financial state of [Local Authorities] coming off the back of COVID and high interest rates is the failure. We’ve had to make staff redundant to balance the books so we have less resources now than for the last decade.”*

³ <https://www.gov.uk/government/statistics/household-energy-efficiency-statistics-headline-release-august-2023>

Despite the challenges, Local Authorities are broadly positive about the objective of ECO Flex as it allows them to play to their strengths in running area-based schemes. However, for Authorities to make a meaningful contribution through Flex requires consistent officer time. We understand the revenue available to Local Authorities taking part in Flex is through a finder's fee. Finders fees are charged as more of an admin fee to run the flex service. There is no official guidance about this, but some councils charge this up front and require it to be paid before issuing the declaration. Nevertheless this is normally between £50 and £150, and so not enough to properly cover the costs involved, or to provide the long-term clarity needed to invest in project management skills. We have found the following issues undermine Local Authority engagement:

- Local Authorities report that the finder's fee is insufficient for the time invested in managing ECO Flex. Therefore, authorities are only investing time in ECO Flex when there is goodwill and wider capacity to invest in the project (i.e., funding via core budget), and authorities assume the officer time will not be fully remunerated.
- The barriers for entering ECO Flex are high and authorities are not properly supported to be involved. Since the finder's fee is paid retrospectively, authorities with a less established fuel poverty or home retrofit team are less likely to enter the programme. E3G's research finds there is a high level of inequality between authorities.⁴ Therefore, Flex is only likely to be accessible to stronger, more affluent authorities.
- Local Authority employed Occupational Therapists (OTs) aren't able to sign off ECO4 Route 3 (health eligibility) since they aren't NHS Employees. Local Authority OTs are far more likely to be engaged with fuel poor citizens than NHS OTs.

Delay is compounding delivery challenges

Delay has been a major issue hindering delivery from the beginning. The significant delays to the official introduction of ECO 4, and further additional delays before Ofgem published the guidance documents in October 2022, meant that many installers had to turn away from ECO in order to stay afloat. The Ofgem ECO register went live in summer 2023, one year after the scheme's official launch. The latest version of the guidance for Local Authorities only published in August 2023 - nearly a year and a half into the scheme, after the first was issued in September 2022.⁵ This uncertainty around evidence requirements has made Local Authorities nervous about agreeing declaration processes. This is further compounded by confusion around the complexity of the scheme.

The government is aware of the aforementioned structural issues impacting ECO 4 delivery, and is considering means to address them in an update to the scheme. However, industry is concerned that this could create additional delay and uncertainty around the scheme, undermining the confidence of installers to engage with ECO 4. There are concerns that this might further delay payments (since installers only get paid when measures are approved); change the operating conditions (and therefore supply chain agreements); and impact the payment of work already carried out under the scheme.

⁴ <https://www.e3g.org/publications/enabling-locally-led-retrofit/>

⁵ <https://www.ofgem.gov.uk/environmental-and-social-schemes/energy-company-obligation-eco/local-authorities>

Energy companies and installers suggest it is therefore vital that the anticipated forthcoming ECO 4 consultation on revisions to the Minimum Requirements is published as soon as possible, in order to move forward with speed on the necessary changes. Clarity must be provided to delivery partners that there will be no economic loss for those who have carried out measures under the current ECO 4 criteria, and clarity given on the timeline for future changes, and how this might impact payments.

Key recommendations

Installers, Local Authorities and energy suppliers are keen to work collaboratively with the government to address the issues holding back ECO 4, and have proposed solutions to navigate these challenges and ensure that the supply chain is ready to deliver both ECO 4 and the Great British Insulation Scheme. Changes are needed to the scheme, but care must be taken to prevent further market disruption through further delay and supply chain disruption. In particular, suppliers and installers need confidence to continue delivering through any period of change.

- **Move ahead with structural changes to ECO 4**, including widening eligibility (i.e. through relaxing minimum requirements and boosting the proportion of social homes and private rented housing covered); revising cost assumption in the Impact Assessment to reflect current market conditions and align with the Great British Insulation Scheme cost assumptions; and extending ECO 4 to make up for the slow start. A consultation should be issued urgently to address these, with clarity provided to installers and energy companies that these changes will not delay payment or impact delivery targets.
- **Provide ancillary support to enable local authorities to engage with LA Flex.** This could include revising Flex payments to Local Authorities, shifting the model to a revenue stream where energy companies pay an authority which has put forward a plan to do Flex finding. In addition, the government could provide funding for project staff, supporting the costs of project management and training. This investment could unlock hundreds and thousands of pounds of investment.
- **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 underpin the supply chain. This could include launching energy efficiency apprenticeships.
- **Engagement with industry:** Coordinate roundtables with installers, energy suppliers and other industry and fuel poverty experts to agree necessary changes to ECO 4, and discuss how they can be implemented in a manner that avoids causing further delays.

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 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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