

Energy Company Obligation (ECO) briefing: Getting Britain’s fuel poverty scheme on track

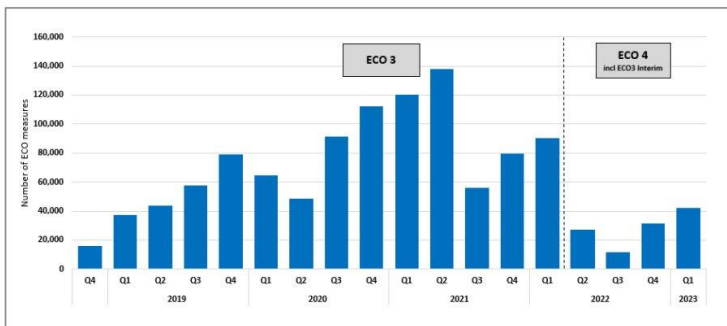
The Energy Company Obligation (ECO) is the UK Government’s flagship fuel poverty reduction scheme and will be essential to making progress against statutory fuel poverty targets. However, the number of households receiving support under ECO has significantly dropped over the past year. As a result, thousands of eligible households are set to miss out on energy saving measures this year, meaning that they will face another winter of high energy bills. We encourage MPs to engage with the Department for Energy Security and Net Zero (DESNZ) to address the issues holding back the scheme and support long-term industry growth.

Background

The ECO is the UK government’s major fuel poverty scheme. It is currently the UK Government’s flagship fuel poverty programme, essential to make progress against statutory fuel poverty targets which require all fuel poor households to reach a reasonable energy efficiency standard by the end of this decade. More generally, ECO helps the poorest households reduce their exposure to volatile energy prices through energy performance improvements which permanently reduce bills. ECO has saved low-income customers £17.5 billion in lifetime energy bills since 2013, and saved the average home treated £290.

ECO4 is the fourth iteration of the scheme, which came into play in April 2022 and is planned to run until March 2026. However, over the past year ECO installations have dropped significantly (see graph).¹ ECO4 is undoubtedly delivering at a slower rate than previous iterations. Energy suppliers and installers are warning of structural issues preventing the scheme from supporting eligible fuel poor households.

ECO3 and ECO4 measures installed by quarter, to end of March 2023



This is having an impact on the supply chains needed to deliver the scheme. The Installation Assurance Authority warns that there are now fewer than 10,000 people involved in the industry and public-funded schemes, whereas in 2012 there was 54,000.

Key issues holding back delivery

- **Difficulties finding properties that meet the minimum requirements:** ECO4 aims to deliver assistance to the poorest households in the least efficient homes, bringing them up to a significantly higher energy performance rating by installing multiple measures. This focus is vital to help deliver progress against statutory goals. However, installers and energy suppliers have noted that the minimum requirements that they must meet under ECO4 are too demanding and stringent compared to previous schemes.
- **Efficiency improvement requirements make the scheme uneconomic:** The requirement to raise a property’s Energy Performance Certificate (EPC) score by two bands is welcome, ensuring a package

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1159333/HEE_Stats_Release_-_MAY_2023.pdf

of measures are installed in one intervention. This, however, means more investment is required per property, reducing the total number of households who can be supported.

- **Cost assumptions:** Following cost escalation caused by labour shortages and increased manufacturing costs, ECO4's Impact Assessment cost assumptions, devised in April 2022, do not reflect current market conditions. More recent cost assumptions, such as those included in the Great British Insulation Scheme's Impact Assessment, note a 60% increase in costs for cavity wall and loft insulation, comprising 28% of measures under ECO4.
- **Administrative costs for installers:** ECO4 is operated under tighter regulations (known as PAS 2035), which takes more time and manpower to administer. While high standards and assurance are critical for building the market, it is important that compliance is cost effective.
- **Early delays eroded industry confidence in the scheme:** Delays to the introduction of ECO4 meant that installers initially planning on delivering ECO have turned elsewhere. Those who moved away from ECO4 are now reluctant to return.

Recommendations to get ECO back on track

- **Revise cost assumptions to reflect current market conditions:** This would mean extending ECO4 to allow DESNZ to develop revised cost assumptions and for industry to build this in.
- **Improve targeting and revise scoring criteria accordingly.** This could include making it easier for the scheme to support more on-grid homes; increasing the number of fuel poor households eligible in the private and social rented sector; and review and reform LA FLEX channels to capture more fuel poor households not in receipt of means-tested benefits or with medical health conditions.
- **Buyout mechanism:** Investigate extending the buyout mechanism so that others beyond energy suppliers can take on obligations. This would allow local authorities to deliver ECO.
- **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 experts:** Ensure open and on-going engagements with installers, energy suppliers and other industry and fuel poverty experts.

Recommendations for MPs

- **Support engagements with DESNZ:** Take opportunities to raise concerns about the low number of households currently receiving measures under ECO4 with relevant ministers and senior officials, including by supporting joint engagements.
- **Ask parliamentary questions:** Raise questions regarding the underperformance of ECO4, inquiring about the government's near-term plans to address delivery challenges; discuss other actions being taken to ensure fuel poor households can receive fuel poverty support before this winter; and long-term steps needed to boost the supply chain, jobs and skills.
- **Engage with industry and local authorities to better understand delivery challenges:** Speak to local authorities, energy suppliers and installers in your constituency to better understand the challenges being faced, and impact this is having on fuel poor constituents.

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