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# EXECUTIVE SUMMARY: THE FUTURE OF THE ENERGY COMPANY OBLIGATION

## BOOSTING DELIVERY TO TACKLE FUEL POVERTY AND UPGRADE HOMES

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The energy company obligation (ECO) is the government’s flagship fuel poverty alleviation programme, and one of the main pillars to improve overall energy efficiency. Changes to the scheme have led to a fall in the number of installations. Reform of the programme is needed to ensure it can play a central role in meeting the UK’s statutory target to end fuel poverty by 2030.

ECO’s ability to act as a vehicle to deliver home upgrades has proved successful in the past, with decades of knowledge and experience delivering through this route. However, the case for reform is clear. To realign objectives and delivery with the UK’s fuel poverty and energy efficiency objectives, E3G recommend a full review of ECO is undertaken, which would examine the underlying principles and supporting architecture.

Review of the energy company obligation			
<b>Role</b>	<b>ECO’s role</b> in the drive to improve home energy efficiency should be realigned with its core strengths. The underlying principles of the obligation should be adjusted to deliver a high volume of retrofits across a range of settings and complement or work with parallel home upgrade schemes.		
<b>Scheme design</b>	<b>Depth of retrofit</b> should be reviewed and adjusted to reduce investment per house and increase the volume of homes treated. This could be done by removing the minimum requirement to move up 2 EPC bands.	<b>Household eligibility</b> should remain focused on fuel poor homes, review should also consider how homes can be targeted more effectively, e.g., overlap datasets and develop a single point of access to reduce hassle for consumers and suppliers.	<b>Building types</b> treated by ECO should be reviewed so fuel poor households are not locked out of help due to scheme design. Current design is weighted towards larger homes when there remain millions of fuel poor households living in other types of homes.
<b>Supporting policy</b>	<b>Compliance and assurance</b> need to be reviewed to ensure they provide the right level of security for consumers, and smooth out delivery for suppliers.	<b>Local authority flexible eligibility</b> route could improve delivery, but revenue funding and better guidelines are needed to increase volume through this route, as well as considering how this could complement local grant schemes.	



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## 1. The role of the supplier obligation

ECO works by placing an obligation on medium and large energy suppliers, of which 13 are currently obligated. Obligated suppliers must promote measures that improve the ability of low-income, fuel-poor, and vulnerable households to heat their homes. Britain's largest suppliers have been obligated to run energy efficiency schemes for nearly three decades.

The supplier obligation is not the only avenue to deliver home upgrades. A successful, national retrofit drive will leverage different routes, and ensure they are complementary and provide full coverage of the UK's households. The comparative characteristics of the different approaches to delivering home upgrades means each approaches' role should be considered carefully to maximise their potential. Adjustments to scheme design (e.g., depth of retrofit, compliance and assurance) is the main way to deliver this. Secondly, there is currently limited coordination between ECO and parallel local schemes or consumer-led policies. Future design should complement other avenues for delivery. Some overlap in supply chains is likely to be unavoidable, especially between ECO and the local authority delivery route.

## 2. Depth of retrofit

In 2022, ECO shifted towards deeper retrofit, treating fewer homes with more measures. Deep retrofit produces a larger improvement on a home's energy efficiency rating but is more expensive to undertake. With a limited budget, this means fewer homes are treated and narrows the pool of homes where deep works are feasible. Average investment per home under ECO4 has averaged £26,000, compared to £3,500 under ECO3, an increase of 640%. In the most recent quarter of ECO4, average investment was £33,000 per home.

When the budget available to help fuel poor homes is limited, and fuel poverty levels remain high in England, the current magnitude of spending per home is not sustainable. Adjusting the depth of retrofit and whole house approach will be crucial to reinvigorating ECO's scale. Under ECO4, a property must meet the minimum requirement (MR) determined under the scheme, and be assessed by a retrofit coordinator, for works to start. ECO4 introduced a new MR to improve the energy efficiency rating by 2 SAP ratings (i.e., from EPC E to EPC C). Homes in band C and above are not eligible for works unless they are in-fill flats. The MR makes it impossible to undertake shallower retrofit in other homes, which,



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although less impactful on a singular project basis, deliver improvements to a larger number of homes.

### 3. Household eligibility for ECO

In England alone there remain 3.17 million households in fuel poverty under the Low Income Low Energy Efficiency (LILEE) metric. In 2023, overall fuel poverty remained the same as in 2022, however, the depth of fuel poverty experienced by these homes increased dramatically. When so many homes remain in the LILEE group, and fuel poverty in this group has worsened, it is right to target ECO's spending on fuel poverty alleviation. The costs of identifying fuel poor households can be high, which distracts investment from home upgrades. Potential beneficiaries of the scheme are also often worried by the Narrow eligibility requirements also limit opportunities to work at scale locally and exclude around 20% of fuel poor households.

While fuel poverty remains high in the UK, there remains a strong argument that energy efficiency funding should be focused on low-income homes. Review of the obligation should consider how to make identifying households cost less for government and more simple for consumers. This could be achieved by; coordinating fuel poverty, means tested benefits and energy efficiency datasets held by different government departments, improving delivery through the local authority Flex component of ECO (see Section 6), and, by better complementing parallel home upgrade schemes.

### 4. Compliance and customer assurance

Without an effective compliance and assurance system, households cannot be fully confident they are protected from the risks of poorly conducted retrofit. Both compliance and assurance require improvements to align ECO with fuel poverty targets and ensure consumers get a fair deal.

#### **Compliance**

ECO4, in 2024, is guided by the compliance frameworks PAS 2035:2023 and PAS 2030:2023, which work in conjunction with each other. Industry reporting indicates the current approach to compliance adds significant additional costs and time to home upgrades; some installers report compliance costs exceed £1000 per project. High levels of compliance and associated costs can make it more difficult for smaller scale retrofit projects to be financially viable.



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If ECO targeted more single-measure retrofits and less deep works, the compliance process would need to be adjusted to align it with the different risks and costs of shallower retrofit. The approach to compliance should be reviewed in line with the broader scheme design, particularly the depth of retrofit which ECO aims to achieve. Review of PAS by industry experts to improve the performance of parallel Great British Insulation Scheme has been completed and will be included in the ECO4 consultation scheduled for Spring 2024.

### **Assurance**

Government-backed retrofit schemes provide assurance to households in receipt of measures that if there are project failures or issues caused by the works, they can be compensated. Experts argue TrustMark's approach to assurance does not provide sufficient cover in the case of a failure. For example, remuneration tends to be based on the original cost of the works rather than the cost of remediating the issue. Furthermore, the approach to assurance has no active relationship with the surveillance bodies and does not have competent resources on the street to check on the quality and capability of installers. A full review of the suitability of assurance scheme which supports ECO should be conducted.

## **5. Building types and geographies treated**

The design of ECO privileges works in different building types and geographies. Currently, design of the scheme skews the obligation towards working in larger houses, rather than flats or other building types, despite there being high levels of fuel poverty in other settings. Reform of ECO should aim to balance delivering home upgrades in a way which align its core strengths with the varying fuel poverty levels in different types of homes.

ECO4 has dramatically shifted to treating homes compared to flats. Installers report that homes being treated are predominantly detached and off the gas grid. As discussed, these homes have seen a disproportionately high increase in fuel poverty since 2021 which could merit increased focus on these homes. However, if the absolute number of fuel poor homes in converted flats and terraced homes is much higher than in detached off-gas homes, this raises questions about whether ECO4's potential is maximised by focusing on a narrow group of properties. Dramatic switches in building types eligible for ECO support is not helpful for suppliers, whose operations are geared towards specific jobs with supply chains established in individual locations. Furthermore, this change overlapped with the introduction of a locally led scheme focused on off-grid fuel poor homes (HUG), meaning there was competition for the limited supply chains.



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## 6. The role of local authorities in delivery

Local authorities are embedded in local areas, meaning they have the potential to combine information about households with buildings themselves. The ECO4 LA Flex scheme enables local authorities to identify eligible households through their own means or via a third party, and then sign off on works. It aims to harness local authorities' knowledge of low income, poorly insulated homes to improve targeting, and household eligibility requirements in Flex are broader than the core route.

Although 50% of works can be undertaken under Flex, only 14.5% of measures have been delivered via this channel in ECO4. In this context, a review of ECO should consider how it can work more effectively with and alongside authorities. Following a decade of funding cuts, local authorities' existing capacity to deliver retrofit programmes is inconsistent and requires resource and time to build capacity and expertise. Adequate resource with streamlined application processes should be provided to ensure all authorities can engage with the scheme. Funds for Flex should not be onerous to apply for to avoid creating an additional barrier to engage with the scheme.

### About E3G

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E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

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