February 2024

Briefing on ECO4 delivery and impact

This briefing offers some insight into the delivery and positive impact of the flagship Energy Company Obligation scheme, now in its fourth iteration (ECO4). Following a slow start in 2022 after the end of ECO3, this flagship affordable warmth programme is now supporting thousands of fuel poor households each month. We are keen to highlight the following key messages to all everyone working in our industry.

1) **ECO is focused on reducing fuel poverty and it is very effective at achieving this** thanks to the obligation to improve the worst-performing homes that is placed on energy suppliers. But the total amount of funding is insufficient and to meet fuel poverty targets a greater investment in ECO will be required.

2) **ECO has been around for a long time is well understood** by suppliers, installers and other supply chain organisations. It has a strong track record of delivery, but each time the scheme is amended there is inevitably a pause in delivery, which impedes support for fuel poor homes. We believe a commitment should be made to extend ECO to 2030 to give clarity and confidence to industry.

3) **ECO complements other energy efficiency schemes** with its focus on deep, multi-measure retrofit that improves the worst properties. This sits well alongside GBIS, which supports a wider pool of homes that need fewer interventions, council/devolved nation schemes which support households in defined geographic areas, and BUS which helps to drive heat pump installation capacity.

4) **ECO supports decarbonisation of domestic properties** through the installation of well-designed low carbon heating, insulation and renewables. Whilst ECO is primarily a mechanism for reducing fuel poverty, and should be seen as such, it is also ensuring that homes are fit for a low carbon future.

5) **ECO will continue to improve over time**. More and more supply chain companies are delivering ECO measures, supported by data-driven lead generation and ECO Flex support from local authorities. The potential inclusion of new measures, such as battery storage, will also enhance the ECO offer.

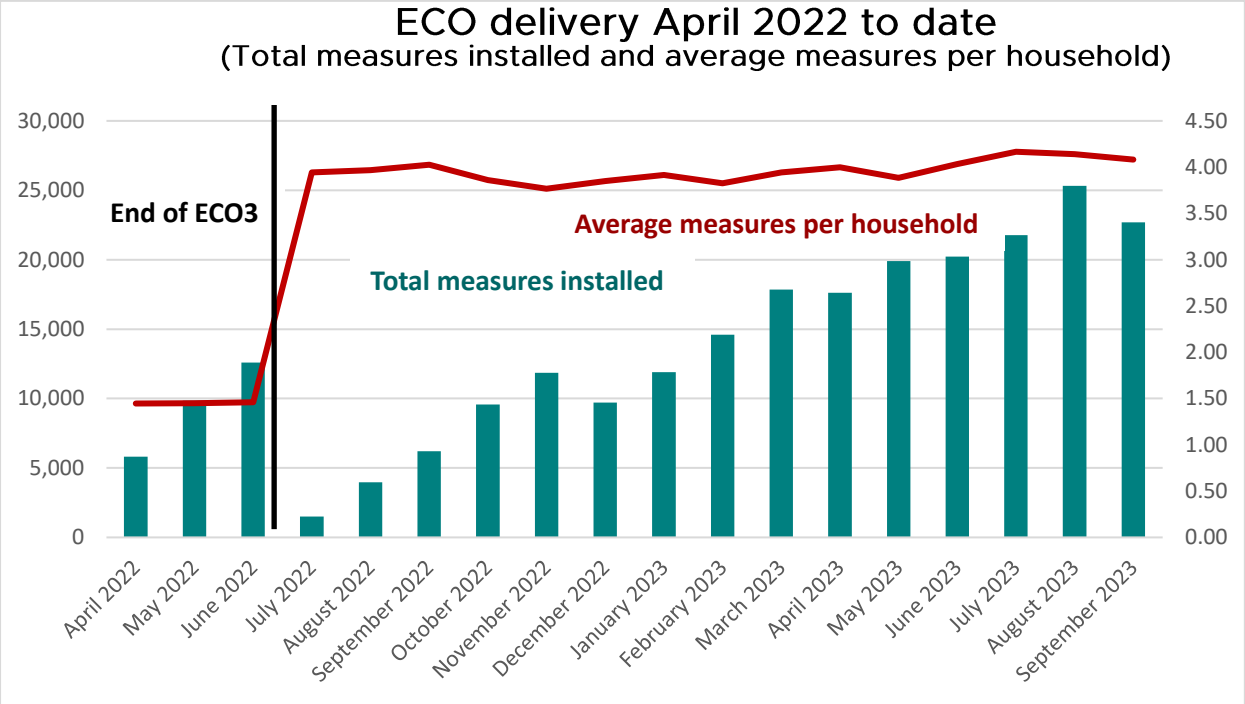
Why is AgilityEco qualified to comment on ECO?

AgilityEco has been a managing agent for ECO funding since its inception, with its founders having been involved with delivering supplier obligations since 1994. We work with a network of over 50 retrofit installation companies nationwide, supporting them with funding, compliance and technical monitoring.

We fund the installation of ECO measures into thousands of households, and we were directly involved in the delivery of 6% of the total ECO3 obligation (2018-2022) – more than 1 million energy efficiency measures. We have been closely involved with both the government and Ofgem in the development of the legislation and guidance for each iteration of ECO, and in 2021 published a well-received report in partnership with Gemserv on the gap in funding available to reach the 2030 fuel poverty target.

1. ECO is an effective scheme for reducing fuel poverty

ECO is focused on the worst performing homes to help achieve the statutory target in England of eliminating of Low Income, Low Energy Efficiency (LILEE) properties. The multiple measures required to improve such properties means ECO is more complicated to manage and deliver than some previous retrofit programmes, but ultimately it delivers the significant improvements required.



(Source: https://www.gov.uk/government/collections/household-energy-efficiency-national-statistics)

ECO4 is making good progress towards this goal of treating the most energy inefficient homes and bringing households out of fuel poverty. Over 67,000 properties have now been treated, and this figure is rising by more than 5,000 households per month, with each receiving an average of around 4.3 measures.

This rate the highest level of delivery ECO has experienced in a number of years, and that ECO4 is making more progress towards the required measure total than ECO3 was at the same point (see Table 2 below). Both ECO2 and ECO3 were successful and ultimately exceeded their bill saving targets – we are confident that ECO4 will do the same.

The tweaks to the scheme that have been introduced as part of the Great British Insulation Scheme (GBIS) legislation, such as allowing electric heating and accompanying solar PV in a broader range of properties, that will assist further.

Nevertheless, it is fair to say that the cost per property has been greater than forecast due to the increase in inflation and also a greater than expected number of measures being installed per property. In many ways the latter is a positive as it is ensuring that households in the worst-performing properties are taken well out of fuel poverty. However, it does mean that the ECO budget will need to be topped up if the desired number of households are to be helped.

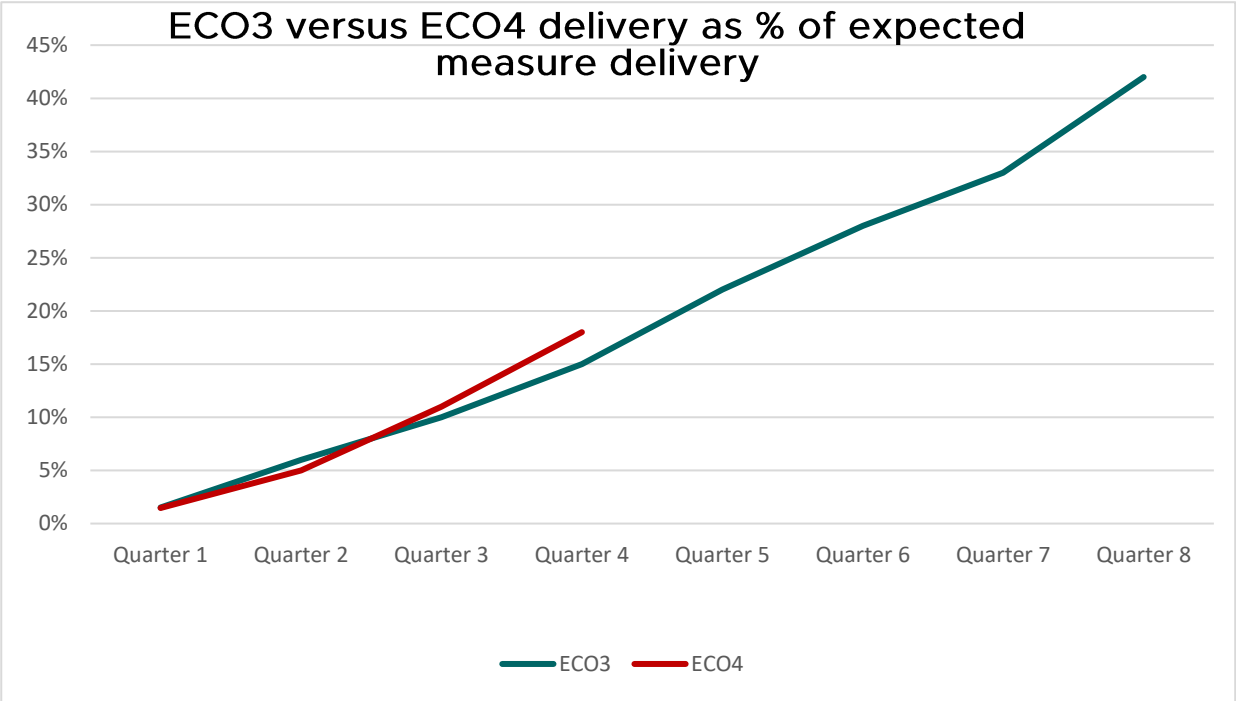


Table 2: ECO4 versus ECO3 delivery shown as cumulative progress towards overall measure target
(Source: AgilityEco internal)

How much is required? National Energy Action (NEA) has recently published its annual fuel poverty monitor, which has estimated the spend required to bring low income households out of fuel poverty by upgrading their homes to an Energy Performance Rating of at least C by 2030 (in line with the statutory government target for England).

Table 3 below shows that an additional £2bn per year is needed across Britain just for fuel poor homes – and no scheme can be 100% effective at targeting such households. Schemes such as ECO that are delivering results in these properties therefore need more support. The historic evolution of ECO suggests an increase to at least £1.5bn per year could easily be deployed through this route.

Nation	Additional funding required	Assumed cost to landlords	Remaining cost
England	£18bn	£7.2bn	£10.8bn
Wales	£2.0bn	£1.0bn	£1.0bn
Scotland	£4.0bn	£2.4bn	£1.6bn
Northern Ireland	£0.7bn	£0.3bn	£0.4bn
Total	**£24.7bn**	**£10.9bn**	**£13.8bn**

Table 3: Funding gap to achieve EPC Band C in all fuel poor UK properties
(Source: NEA fuel poverty monitor 2022-23 https://www.nea.org.uk/wp-content/uploads/2024/01/FPM-full-31-January.pdf)

2. ECO is well understood by suppliers, installers and the regulator

We have seen in the past that each previous iteration of ECO has taken time to bed in as suppliers and the supply chain get to grips with the new rules. This time it has taken longer because of the sheer weight of conditions placed upon delivery. These include:

- Supporting the 'worst first' principle, with a focus on E, F & G properties
- Requiring a 2 SAP-band increase i.e. each property needs multiple measures
- Promoting a 'fabric first' approach and favouring low carbon heating
- Requiring a property to achieve an Annual Bill Saving (ABS) score that makes it economically viable
- The use of PAS 2030 and PAS 2035 processes to guarantee quality and protect consumers

Progress was initially hampered by delays to the guidance issued by Ofgem, but 18 months on the supply chain and partners (including local authorities) are in a good position to deliver. We believe that the scheme should now be extended in its current form until 2030. Whilst tweaks to ECO can be helpful, any significant changes (or even the introduction of a replacement scheme) will require time for guidance to be published, understood, and acted on. This will put progress at risk, as well as keep vulnerable households waiting longer for improvements to their homes.

We must ensure that the supply chain has confidence otherwise jobs will be lost – for example, the IAA has estimated that if ECO were to end 30,000 jobs would disappear (Figure 1 below). As a national scheme ECO is not impeded due to the geographical funding limits that local authority-led schemes have, and the funding can flow to where it is needed and where supply chain capacity is available.

More than 30,000 jobs at risk if insulation levy cut from fuel bills

Government considers scrapping scheme that pays for energy efficiency measures for poorer households

Insulation being laid in the attic of a house. An industry body says the levy on energy bills costs 52p a week, but saves an average of £300 a year for the 3 million homes who have benefitted. Photograph: Philip Toscano/PA

Ultimately energy suppliers are accountable for its success and they are very well versed in the successful delivery of social obligations. They face significant penalties for the under delivery of ECO and therefore are strongly incentivised to prioritise retrofit for fuel poor homes and to ensure that outcomes are achieved.

Conversely, there is no meaningful sanction that government can use to hold other delivery agencies, such as local authorities, to account. Unspent funds simply get sent back to the Treasury, which is unacceptable considering the urgency of the cost of living and climate crises. We are confident that over the lifetime of ECO targets will be met.

3. ECO complements other domestic energy efficiency schemes

ECO is not suitable for every household, nor for every property – it is for the worst-performing fuel poor homes. AgilityEco supports the long-term goal of decarbonising every home in Britain, and this will not be possible without additional support from government. We support a combination of grant funded programmes, private finance and legislation – the latter especially focused on landlords. Together these actions will increase the energy efficiency of homes and the energy security of the country. Whilst decarbonisation is the longer-term goal, the short to medium focus has to be on supporting low income/fuel poor households, for which ECO is an effective and well proven channel.

The Great British Insulation Scheme is aimed at better-performing homes than those targeted by ECO, but which still need some retrofit work. Like ECO4 it has seen a slow start, but will ultimately support a significant increase in the number of homes that can achieve EPC band C with just a single measure.

AgilityEco has already blazed a trail in this market segment through our **Connected for Warmth** insulation scheme (Figure 2 below). This offers loft and cavity wall measures, plus supporting small measures and advice, to homes in Council Tax bands A-D. It has been hugely successful, with over 4,000 homes helped to date. We think that this is a good indicator of how much interest there will ultimately be in GBIS.

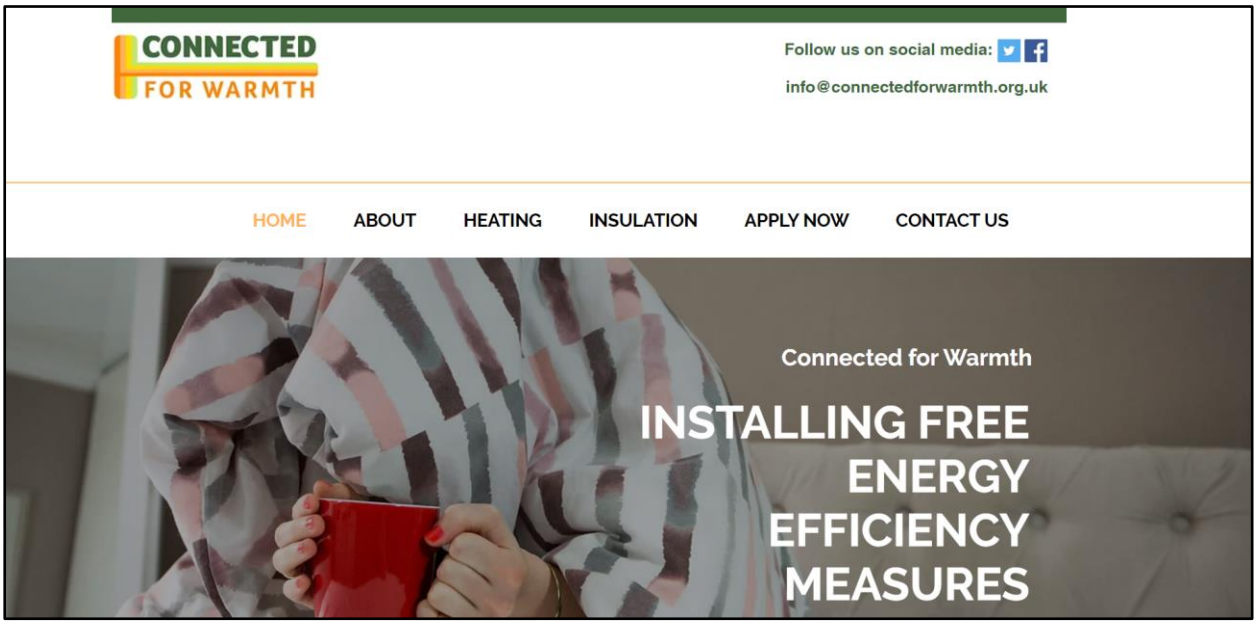


Figure 2: The Connected for Warmth website
(www.connectedforwarmth.org.uk)

The Local Authority Delivery (LAD) and Home Upgrade Grant (HUG) schemes in England have allowed local authorities to directly help residents, but some are more proactive than others, leading to a postcode lottery for residents and some funding being unspent. With its flexibility to be spent nationally, ECO ensures that funding and resources to areas where local authority schemes are weak.

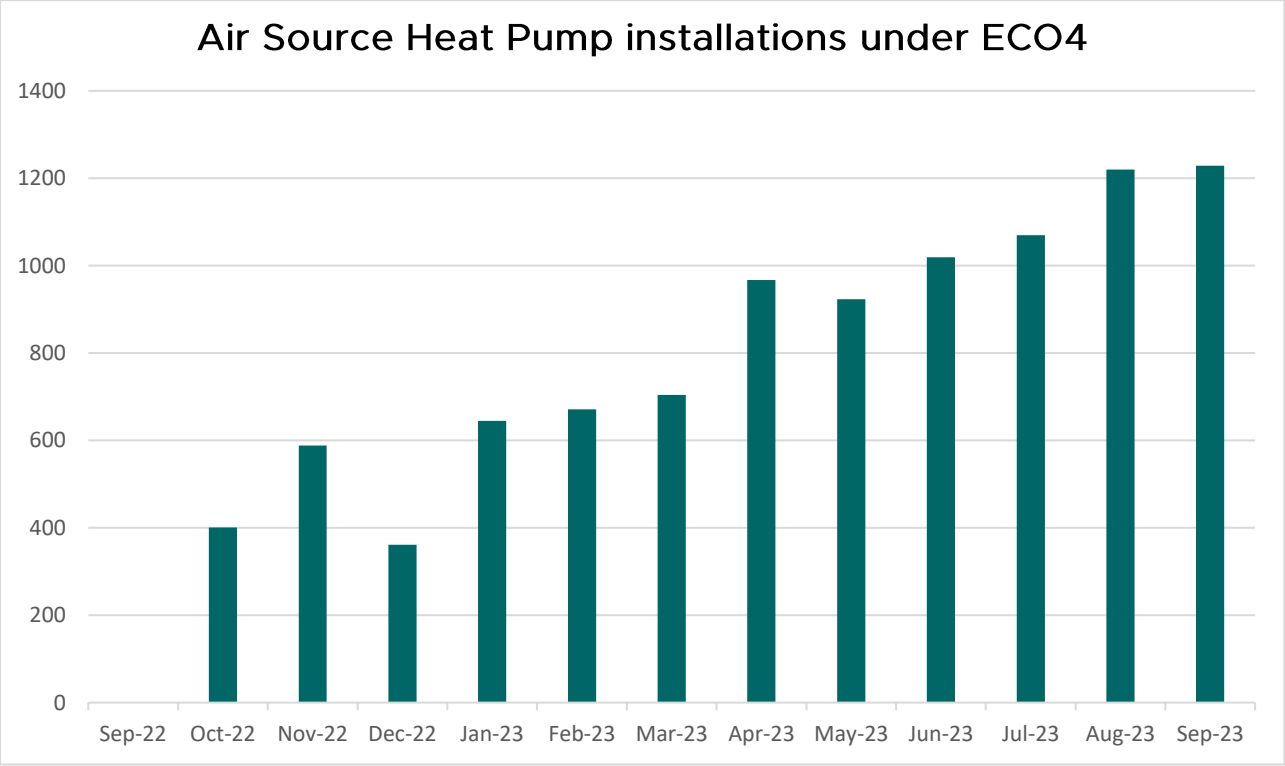
Boiler Upgrade Scheme (BUS): The primary focus of this programme is decarbonisation, with funding available to support the installation of heat pumps into any home, regardless of efficiency or income. So the target markets are different, but both ECO and BUS benefit from the other scheme driving the take-up of heat pumps, and the increase in installer confidence and capacity that this brings.

4. ECO supports decarbonisation

The retrofit of domestic homes is clearly a route to decarbonisation, but understandably since ECO transitioned into a scheme solely focused on affordable warmth, CO2 savings have not been a key performance measure of the scheme. This is sensible, as fuel poor homes are amongst the lowest users of energy due to underheating and self-disconnection. Pound for pound, a scheme aimed at higher energy users, such as the Boiler Upgrade Scheme, will have a more significant impact on carbon.

Nevertheless, it is important that where possible, public money should be invested future-proofed, low carbon heating measures where they are the right solution to end fuel poverty. Low carbon heating also has the additional benefit of improving indoor air quality in homes where solid fuels are being burnt, which can have a positive impact on health outcomes. The first three iterations of ECO will achieve lifetime carbon savings of around 58 MtCO2e from the 1.03 million energy saving measures installed.

ECO4 is even more climate friendly as we are seeing increasing numbers of air source heat pumps being installed as first-time central heating in off-gas homes (see Table 4). We will also see more high heat retention storage heaters (HHRSH) installed alongside PV panels to provide a low-carbon solution where heat pumps aren't suitable.



5. ECO will continue to improve over time

We are 18 months into a four year obligation. The industry has got to grips with the scheme, and changes already made to guidance are having an effect. We can look forward to even greater delivery thanks to the following factors:

a) **The further development of ECO Flex will make more homes eligible:** It has taken time for local authorities to engage with ECO4 flex. The internal processes of councils are not conducive to swift decision making and concerns and confusion around evidence requirements have hampered the setup of effective processes. Even today many authorities that have published a Statement of Intent do not have a robust process to issue declarations. Nevertheless, a majority of councils now have functioning ECO flex administration processes and as this number increases we will see an impact on the number of households being identified as ECO-eligible.

b) **Data-driven lead generation will help identify suitable properties:** More and more supply chain companies are delivering ECO measures, supported by better quality data. There are a raft of new digital tools, portals and apps that are utilising both existing property and household data, plus AI-generated assumptions, to more effectively identify households that will be eligible for ECO and other grant funding. This will reduce the cost to market schemes and to ensure that no eligible household misses out.

c) **Changes to the measure mix will make improving homes more economically and technically feasible:** AgilityEco welcomed the classification of solar panels paired with HHRSH as low carbon heating, which will help to support fuel poor properties that are not suitable for heat pumps. The future inclusion of additional innovative measures, such as battery storage will further enhance the ECO offer and make it easier to upgrade properties to an EPC of C.

d) **Further beneficial changes to the scheme are likely to be agreed this year:** We expect a further consultation from the government in 2024 on ECO delivery on how to ensure the industry can use more realistic cost assumptions to ensure that ECO-eligible jobs that are technically eligible are also economically viable.

In summary, an extension of ECO to 2030 and an increase in the yearly budget will help ensure that the fuel poverty target in England is met, and give the supply chain confidence to invest in people and equipment.

AgilityEco would also support tweaks to the scheme such as a loosening of the measure mix criteria, or allowing greater support for privately rented properties, in order to help even more fuel poor homes.

However, ECO must be retained in its current form as a supplier obligation, focused on whole house, multi-measure retrofit and with the standards of compliance and quality assurance that ensure the best outcomes for fuel poor homes.

Useful background

There are a number of useful official sources of information on ECO:

- The government's Annual Fuel Poverty Statistics in England report explains how the government measures fuel poverty via the LILEE definition and how this relates to EPC bands. https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2023

- The government's monthly Household Energy Efficiency Statistics release includes figures for the number and type of ECO measures installed. https://www.gov.uk/government/collections/household-energy-efficiency-national-statistics

- Ofgem's ECO4 Guidance: Delivery has the full details of rules surrounding the scheme – it is now in version 2. https://www.ofgem.gov.uk/publications/energy-company-obligation-eco4-guidance-delivery

- Ofgem's ECO4 Guidance: Local Authorities has details of local authority ECO flex https://www.ofgem.gov.uk/publications/eco4-guidance-local-authority-administration

- Ofgem's ECO3 final determination has detailed statistics related to energy and carbon savings for the period 2018-2022 https://www.ofgem.gov.uk/publications/energy-company-obligation-eco3-final-determination-report

- The House of Commons Library produced a background paper on the scheme in June 2023 in support of a parliamentary debate https://commonslibrary.parliament.uk/research-briefings/cdp-2023-0141/

- DESNZ has recently consulted on changes to the scheme from April 2024 to reflect the new SAP and RdSAP 10.2 https://www.gov.uk/government/consultations/energy-company-obligation-schemes-standard-assessment-procedure-sap-and-reduced-data-sap-rdsap-amendments

- National Energy Action (NEA) and Energy Action Scotland (EAS)'s latest UK Fuel Poverty Monitor report. The report finds that the UK Government will miss a legal requirement on fuel poverty in England by a staggering margin – leaving 3 million households trapped in fuel poverty by 2030.

In May 2023 the government confirmed it was reviewing the scheme in light of the increase in costs of delivery, and a consultation on these is expected from DESNZ later this year:

https://utilityweek.co.uk/eco-review-launched-after-suppliers-warn-of-unrealistic-cost-assumptions/