

## CBI Consultation Response ECO: Help to Heat

19/08/2016

This response argues that:

- We welcome the government's plans for an interim scheme before moving to a longer term scheme, which will require a smooth transition in order to ensure effective delivery.
- Business is supportive of move to reduce the administrative burden of ECO, however government must examine the risk of unintended consequences that may arise from changes to the scheme in the interim.
- Looking forward we need clarity on a long term successor to ECO, alongside a longer-term policy outlook that will support consumers and build a sustainable market in household energy efficiency.

The CBI welcomes the opportunity to respond to this consultation. Improving the energy efficiency of the UK's housing stock has several key advantages, particularly in helping people manage household energy bills, in meeting our ambitious climate change targets and in supporting growth and prosperity across the UK. With some of the least energy efficient houses across Europe here in the UK, as well as the highest rates of fuel poverty, it is important to acknowledge the role that improving household energy efficiency will have on associated health benefits that come from living in warmer and more comfortable homes.

With changes and cuts to the sector over the last 18 months, including the removal of the zero carbon homes obligation, alongside the end of Green Deal, there is ever increasing uncertainty around the future of household energy efficiency policy, which has been compounded by the fact that the current Energy Company Obligation scheme – which delivers the vast majority of subsidised measures – is due to come to an end in March 2017. The CBI's 2015 policy brief, *The Future of the Energy Company Obligation*<sup>1</sup>, highlighted the need for urgent action to establish a successor to the current scheme in order to avoid an industry hiatus and to give those parties required to deliver a new scheme sufficient lead-in time to ensure cost-effective delivery. As such, business welcomes the action being taken by the government in establishing an interim scheme through a robust consultation process, whilst giving clarity on the likely content of future proposals. This will ensure that households continue to benefit from the delivery of energy efficiency measures, and will allow the supply chain and the industry time to plan and adapt before the expected changes of a new scheme come into force in 2018.

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<sup>1</sup> CBI, *The Future of the Energy Company Obligation*, 2015

**We welcome the government's plans for an interim scheme before moving to a longer term scheme, which will require a smooth transition in order to ensure effective delivery**

**The focus on the fuel poor is a positive step to support those most in need, however for the success of the scheme as a whole industry need details on legislation in a timely manner.** The increased focus on the fuel poor will ensure that those most in need of household energy efficiency measures are receiving it. This interim scheme does however see a number of changes, and as such will be a challenging transition on both industry and the supply chain. With legislation not expected before January 2017, the industry is left with a difficult decision on whether to start delivering now in order to ensure they achieve their targets, but run the risk that these measures are ineligible, or delay on delivery – impacting the supply chain, and leaving only a year to meet these targets. Given this challenge, it is crucial that the government continues to work together with industry, ensuring the delivery of legislation within the planned timeframe. Furthermore, any further changes to the scheme should be made in consultation with industry.

**The government should examine the scope to allow a 'carry under' scheme whilst industry adapts to the new measures and targets.** A 'carry under' scheme refers to the opportunity for industry to carry a shortfall of new targets through from the interim scheme to a longer term scheme running from 2018-22, with a window in which to complete the delivery of interim targets. This 'carry under' could prove to be a key factor in ensuring the success of both the interim scheme, but also the future, long term obligation. Crucially the carry under could be kept separate from, and run parallel to, an enduring scheme starting April 2018, with a fixed term by which companies must achieve the targets. A 'carry under' is made more important on the basis that this interim scheme sees the supply chain having to change the ways they identify who is eligible for energy efficiency measures. For some suppliers this will be a sharp learning curve, especially for those who currently don't deliver under the Affordable Warmth scheme, but will be required to in the future. A 'carry under' would give the industry and supply chain the much needed flexibility in order to adapt to the changes, identify

those eligible within the year, and successfully deliver the required energy efficiency measures on a more feasible timeline.

**Business is supportive of move to reduce the administrative burden of ECO, however government must examine the risk of unintended consequences that may arise from changes to the scheme in the interim.**

**Flexible eligibility is a positive step in streamlining the identification of those in need of energy efficiency measures. It is, however, important that clear guidance is provided to Local Authorities.** Flexible eligibility will allow Local Authorities (and other trusted partners) to play a role in identifying homes that don't qualify for ECO, but whose homes still should be treated; for example those that are fuel poor but not in receipt of benefits, or are low income and vulnerable. This will support in the identification and delivery of energy efficiency measures to those most in need, as well as helping industry achieve the stretching Affordable Warmth targets. Business supports the idea that trusted third parties can play a role in the delivery of future schemes, and flexible eligibility is a positive first step towards this. It is crucial that the government uses this interim scheme as an opportunity to learn and create best practice. Local Authorities need to be given clear guidance in order to be able to work with the industry, making sure that decisions can be made quickly and in such a way that ensures due diligence and governance are considered. It's also important that any additional data sharing capabilities that are needed from April 2017 are in order before the start of use date.

**Deemed scoring is a key simplification measure that will reduce the administrative burden of ECO, however it is crucial it is accurate, taking into account a range of property features.** Deemed scoring will introduce a set of standardised scores for different homes based on a key set of property features. This will allow industry to better identify eligible homes and more easily come to a decision on whether to install insulation measures. The new simplified scoring system also has the potential to create clarity for consumers on understanding whether they are eligible for measures. However it is crucial that the scores are carefully, and accurately set. There are currently some concerns that the new scoring may drive a shift in certain types of insulation measures on the

basis that scores, as they are currently set, don't take into account a range of property features including property type and current levels of insulation. There is also some concern from business that the use of a different scoring measures for district heating may make it harder to compare the values across different insulation measures. It is crucial that the government considers this when introducing deemed scoring to ensure they are as accurate as possible, and to also ensure different insulation measures are fully comparable on cost and carbon savings.

**The addition of caps and minimums on the types of measures eligible adds an extra layer of administrative burden to the scheme, and may give rise to unintended consequences.** This interim scheme has sought to simplify the obligation in a number of ways. This includes reducing the number of individual obligations within ECO and removing the rural sub obligation, providing simpler routes to evidencing Affordable Warmth eligibility through flexible eligibility, and introducing deemed scoring. However there is some concern around the introduction of caps and minimums on the types of insulation measures eligible for insulation – specifically limiting the numbers of qualifying boilers, as well as setting a minimum for solid wall insulation. Any caps or minimums add an extra layer of administrative burden to the scheme and should therefore be avoided. As this is an interim scheme with stretching targets for delivery, it is crucial that the supply chain be given the opportunity to build their expertise, particularly in the delivery of Affordable Warmth, thereby allowing for the installation of the most appropriate and high quality insulation measure, based on household needs.

**Looking forward we need clarity on a long term successor to ECO, alongside a longer-term policy outlook that will support consumers and build a sustainable market in household energy efficiency.**

**Business needs clarity and certainty on what a future scheme, running 2018-22 will look like.** Government has already given some indication as to what we might expect from a future scheme – which will focus entirely on the Affordable Warmth

category, however it needs to ensure that details are given on the 2018-22 scheme in a timely manner, and that it is communicated to business effectively. Further considerations for a future scheme set out in the CBI's 2015 policy briefing include looking at alternative funding mechanisms, including looking at the streamlining of programmes across departments to leverage funding. It is also crucial that we transfer learning from this interim scheme into a new scheme, specifically around the role that flexible eligibility can play in the delivery of ECO, and the role of deemed scoring in encouraging innovation in energy efficiency technologies. It's also important to note that in light of expanding devolved powers, we can also expect to see a separate scheme in Scotland by 2018, which many suppliers across the UK will need to deliver on. Added flexibility in the interim scheme will support suppliers as they consider a devolved obligation, but it's crucial that this is considered in detail in advance of a future scheme. For those who are both off grid and within rural areas, more support is needed in the future to deliver the much needed measures to tackle fuel poverty, especially with the removal of the rural sub-obligation from the current scheme.

**Whilst we can look to a long term ECO to deliver for the low income, fuel poor homes, government and business need to work together on what a future able-to-pay market will look like.** For those who are able to pay for energy efficiency measures, a new strategy is needed, and urgently. With the end of the Green Deal and the removal of zero carbon homes the industry and government need to be working together to deliver a solution, establishing a long term able-to-pay market, driven by consumer demand.

**When it comes to driving sustainable consumer demand it is important to look at the consumer journey, seeking to engage at timely trigger points, providing the right information and a range of financial options, underpinned by fiscally neutral incentives and the right regulatory framework.** The CBI's 2016 policy briefing, *Overcoming the Hassle Factor*<sup>2</sup> set out some key recommendations which are based upon some of the milestones along a consumer journey. These trigger points range from the property search, through to the mortgage application, purchase,

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<sup>2</sup> CBI, *Overcoming the Hassle Factor*, 2016

decoration and home improvements, and finally the point at which a consumer sells a property. There are a number of levers both the government and business can use to engage customers at these points, and these should be examined as part of a wider assessment for a future able-to-pay market.

The government also needs to learn from the less successful attempts to drive the able to pay market. The high interest rates associated with the Green Deal Finance Plans proved unattractive to consumers, but it's important that the government doesn't ignore pay as you save (PAYS), which remains a valuable model. The government should be looking to provide low interest loans through commercial banks, which are encouraged through a range of incentives and regulations that drive consumers to act.

**With the Bonfield Review expected in the Autumn, the outcomes need to be taken into consideration when considering the future of the able-to-pay market.** The Bonfield Review was commissioned to carry out an independent review into the energy efficiency industry, and the end goal of the review is to put forward new standards, better standards, better enforcement, and better policing<sup>3</sup> - providing the foundations for a future able-to-pay energy efficiency market. It's crucial that it is released in a timely manner so that its recommendations can be incorporated into a future scheme.

**Finally, the government needs to start thinking in a more holistic way about the future of household energy efficiency.** With the recent legislation on the 5<sup>th</sup> Carbon Budget, household energy efficiency will become ever more important in meeting tough carbon targets. The government needs to be considering a wide range of fiscally neutral incentives and regulation in order to drive investment towards innovations in household energy efficiency, as well as taking into account broader infrastructure considerations and the need for new skills in the future - all key factors in maximising the efficiency of buildings over their lifetimes. In doing so this will help in bringing down energy costs for consumers, reducing the instances of fuel poverty in the future, and supporting in the

delivery of well insulated, low carbon homes for the future.

## Conclusions

In order for both a successful interim scheme and a future long term ECO, the government must ensure they take into account the views of the industry and the supply chain.

The most crucial factor is clarity for business, which includes clear timelines, details on future legislation, and continued communications and feedback loops. This will ensure that the industry, supply chain and the government can use this interim scheme to learn and establish best practice for a future long term scheme running to 2022. Beyond this, business, and households, need stability and clarity on a long term plan to drive the able-to-pay market thereby ensuring that those who want install energy efficiency measures within their homes are supported in doing so.

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<sup>3</sup> Business Green, 2015  
<http://www.businessgreen.com/bg/analysis/2429238/from-green->

[mortgages-to-energy-efficiency-standards-bonfield-review-seeks-industry-input](#)

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