

# LGA response to DECC consultation: ECO help to heat

17 August 2016



## About the LGA

The Local Government Association (LGA) is the national voice of local government.

We are a politically-led, cross party organisation which works on behalf of councils to ensure local government has a strong, credible voice with national government. We aim to influence and set the political agenda on the issues that matter to councils so they are able to deliver local solutions to national problems. The LGA covers every part of England and Wales, supporting local government as the most efficient and accountable part of the public sector.

This response has been agreed by the LGA's Environment, Economy, Housing and Transport (EEHT) Board. The EEHT Board has responsibility for LGA activity in relation to the economy and environment, including: transport, employment and skills, economic development and business support, housing, planning, waste and climate change.

## 1. Introduction

1.1. We welcome the consultation from DECC (now part of the Department for Business, Energy and Industrial Strategy) on the future of the Energy Company Obligation (ECO). As the current obligation runs out in 2017 it is helpful to have clarity on the immediate future of the programme and the longer term direction of travel.

1.2. In summary, the consultation paper proposes a transition year in 2017-18 between the old ECO and the new refocused ECO which will run from 2018 until 2022. The Government proposes to reduce funding for "able to pay" customers and put more emphasis onto fuel poor households.

## 2. Responding to the main themes of the proposals

### Changing the structure of ECO

2.1. The "Help to Heat" consultation paper proposes changes to the structure of ECO to support better targeting of fuel poor households. To achieve this it is proposed that the obligation on energy companies to install insulation measures in any home<sup>1</sup> will reduce in 2017-18 and then stop entirely from 2018. We support the government's aim of directing limited resources at those most in need, particularly in the context of

<sup>1</sup> The Carbon Emission Reduction Obligation (CERO)

# Submission

reduced provision for ECO<sup>2</sup>. However, this leaves a significant gap in policy and provision for homeowners and “able to pay” households from 2018. Analysis of the potential demand for insulation shows that there is still more to do:

#### Insulation measures installed and remaining potential<sup>3</sup>

	Properties already treated (million)	Remaining potential
Cavity wall insulation	14.4	24%
Loft insulation	16.9	29%
Solid wall insulation	0.3	94%

2.2. The Green Deal and ECO were originally designed to work together to reduce energy bills for householders and provide an affordable way of installing heating and insulation measures. With the closure of the Green Deal and refocusing of ECO from 2018 it is difficult to see what will motivate the “able to pay” to install energy saving measures, with a potential knock-on effect to local installers and the insulation industry. We urge government to put alternative funding or a replacement for the Green Deal in place as soon as possible.

2.3. Under the proposals the obligation to install area-based energy efficiency schemes in low income areas<sup>4</sup> will be dropped from 2017. We recognise that this element of ECO may not have performed as well as expected. However, removing this element of ECO will also take away the rural safeguard that was added to the ECO scheme to avoid any bias in delivery. Ensuring that measures are delivered to rural homes remains challenging because of the additional cost and complexity. We recommend that the ECO scheme continues to have a rural target or safeguard after 2017. Effective monitoring will be needed in order to understand the pattern of delivery under the new scheme.

#### **Better targeting of fuel poor households**

2.4. We welcome the proposal for councils to nominate fuel poor households for ECO funded measure through “flexible eligibility”. It is a long overdue recognition of the leadership role of councils in tackling fuel poverty, and their strong links to communities.

2.5. While councils will welcome the opportunity to nominate fuel poor households to receive energy efficiency measures this will be extra work and it is not clear how they are expected to resource this<sup>5</sup>. Given the pressure on council budgets we would welcome further thinking by DECC and the energy companies on how councils’ role can be sustained through financial support.

2.6. The processes for making and monitoring nominations must be simple and easy to administer. The complexity of the Green Deal and

<sup>2</sup> The Spending Review reduced the ECO budget from £820 million to £640 million

<sup>3</sup> Source: Household Energy Efficiency National Statistics, Detailed Report 2015 (DECC)

<sup>4</sup> The Carbon Saving Communities Obligation (CSCO)

<sup>5</sup> The ECO Consultation Impact Assessment identifies savings on the cost of searches through flexible eligibility as a positive benefit to energy companies.

earlier ECO schemes were a significant barrier to council participation<sup>6</sup>. Councils must be involved in designing new processes from the start. The LGA would be happy to advise on this.

2.7. A gradual introduction of “flexible eligibility” is proposed and the government plans to set a limit on the proportion of measures each of the obligated energy suppliers can deliver through this route. The proportions put forward for discussion are 10% and 20%. Of these the LGA supports a limit of 20% and recommends that this is reviewed at an early stage once it has been tested in practice.

### **Extending the scheme to social housing**

2.8. It is proposed that the “affordable warmth” element which supports heating and insulation should be extended to the least energy efficient social housing, without further eligibility measures such as receipt of benefits. The LGA has argued for social tenants to be eligible for ECO measures since the start of the scheme and we strongly support this proposal.

2.9. Social landlords are much more likely to take up ECO supported measures if they can arrange for installation to take place during void periods. The slow timescales for the agreement and installation of ECO measures may be a barrier to delivery. We recommend that ECO processes are reviewed and streamlined to make sure this doesn't happen.

2.10. From an ECO provider point of view, it is more cost effective to work with social landlords holding significant amounts of stock rather than individual private landlords and home owners. ECO processes and monitoring must ensure that there is balanced delivery across all housing tenures.

### **Understanding the relationship between ECO and other funding streams**

2.11. The relationship between the delivery of energy company obligations and match funding has always been closely linked. The LGA reported on the experience of local government in the Community Energy Saving Programme (CESP) noting that energy companies actively sought partners who could provide match funding (e.g. social landlords), and asked for additional financial contributions for schemes perceived as higher risk or less valuable in meeting carbon targets<sup>7</sup>. We expect that energy companies will continue to seek match funding from other sources to reduce the cost to their own organisations in delivering their obligations. We would welcome greater transparency on this issue, and for the evaluation of the cost effectiveness of ECO to consider the additional resources provided by partner organisations, not just the costs incurred by the energy companies.

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<sup>6</sup> 39% of councils gave the complexity of the Green Deal and ECO as a reason for not participating in the schemes. Energy Efficiency Survey 2013, LGA

<sup>7</sup> LGA response to Green Deal and ECO consultation, 2012

2.12. The Scottish government has made a £14 million fund available for energy efficiency<sup>8</sup> but there is no equivalent funding programme in England. This makes Scotland potentially a more attractive location for delivering ECO programmes than England. While the Scottish model may not translate to England, we recommend that lessons are learnt from their approach and a package of incentives is developed in England.

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<sup>8</sup> <http://news.scotland.gov.uk/News/Integrated-approach-to-energy-efficiency-2195.aspx>