

# Future Support for Low Carbon Heat: Boiler Upgrade Scheme

Government response to Clean Heat Grant proposals within 'Future support for low carbon heat' consultation



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### **Ministerial Foreword**



COVID-19 has had a significant and unprecedented impact on UK society and economy. As we rebuild from the impacts of coronavirus, we must build back better, prioritising a green recovery, which will bring investment in jobs into areas that will help the UK make progress toward our climate change, air quality, and other environmental targets.

The UK is the first major economy to set a world leading Net Zero target and earlier this year committed to an ambitious interim Carbon Budget 6. Tackling climate change offers important opportunities for the UK including supporting high-quality jobs and the growth of new and emerging industries. The UK has already shown that environmental action can go hand-inhand with economic success, having grown our economy by more

than three-quarters while cutting emissions by over 40 per cent since 1990. The sixth carbon budget is another indication of this government's dedication to Britain's green industrial revolution, positioning the UK as a global leader in the green technologies of the future. The Prime Minister's Ten Point Plan for a Green Industrial Revolution sets out how the government will mobilise £12 billion of government investment, and potentially three times as much from the private sector, to create and support up to 250,000 green jobs.<sup>1</sup>

An important aspect of tackling climate change, as outlined in the Energy White Paper<sup>2</sup>, is the decarbonisation of our buildings, which currently accounts for a third of carbon emissions in the UK. The Heat and Buildings Strategy, published alongside this government response, sets out the actions we must take to improve the energy efficiency of our buildings and transition to clean energy for heating. The Boiler Upgrade Scheme, formerly the Clean Heat Grant, represents one part of a much larger package of measures which will see the UK undertaking a mass transformation of our existing building stock and facilitating the transition to low carbon heat.

This document outlines the government's plan to launch the new Boiler Upgrade Scheme in England and Wales: a scheme that will provide capital grants to support the installation of low carbon heating systems in homes and some non-domestic buildings. The scheme will support the continued deployment of low carbon heat following the closure of the Domestic Renewable Heat Incentive (RHI) in advance of the proposed introduction of regulatory and market-based measures in the mid-2020s that will further drive the transition to low carbon heat in our homes and businesses.

This policy will also help to deliver the Prime Minister's Ten Point Plan commitment to deploy 600,000 heat pumps a year by 2028, supporting the expansion of the low carbon heat market, scaling up manufacturing and upskilling installers.

#### Lord Callanan

Minister for Climate Change and Corporate Responsibility

<sup>&</sup>lt;sup>1</sup> The Ten Point Plan for a Green Industrial Revolution

<sup>&</sup>lt;sup>2</sup> Energy White Paper

### Introduction

### Background

This document sets out the policy for the Boiler Upgrade Scheme (BUS), formerly the Clean Heat Grant. This document provides the government response to the Clean Heat Grant section of the 'Future support for low carbon heat' consultation that was launched in April 2020. The government response to the Green Gas Support Scheme section of the consultation was published in March 2021.<sup>3</sup> A further consultation, 'Clean Heat Grant: further policy design proposals', ran from 12 February 2021 to 5 March 2021, seeking views on minimum insulation requirements, biomass eligibility, the voucher application process, and clarified our proposed approach to new-build eligibility. This publication also serves as a response to these further policy design proposals.

We intend to appoint Ofgem as administrator of the Boiler Upgrade Scheme. The scheme administrator will be responsible for running the day-to-day operations for the scheme. This will include performing functions such as handling enquiries, reviewing applications, making payments, and monitoring compliance with the scheme rules.

## Summary of stakeholder responses to the consultation proposals

The main consultation received 352 responses, split between respondents who were primarily concerned with this scheme and those who were mainly focused on the Green Gas Support Scheme. The 'Clean Heat Grant: Further policy design proposals' consultation received 30 responses.

Respondents to the main consultation were largely supportive of the objective to incentivise the deployment of low carbon heating systems in domestic and small non-domestic buildings through capital grants. They also broadly agreed with the proposal to limit the thermal capacity of supported installations to 45 Kilowatts (kWth).

Many respondents raised concerns about the relatively small size of the overall scheme budget and the grant level proposed. Stakeholders particularly disagreed with the 'technology neutral' approach to grant levels and argued that a flat-rate grant across all technologies favoured air source heat pumps (ASHP) and was not appropriate given the significantly lower capital cost of an ASHP compared to both ground source heat pumps (GSHP) and biomass boilers.<sup>4</sup>

Respondents largely disagreed that a £4000 grant would deliver on the objectives of the scheme. Some thought that the proposed grant amount would be appropriate to incentivise ASHP deployment but not appropriate for other more expensive technologies. Others thought £4000 would not be a sufficient incentive for any of the proposed technologies.

<sup>&</sup>lt;sup>3</sup> Future Support for Low Carbon Heat and the Green Gas Levy: Government Response

<sup>&</sup>lt;sup>4</sup> Water source heat pumps (WSHPs) will also be eligible and considered the same technology category as ground source heat pumps (GSHPs). All mentions of ground source heat pumps in this document apply equally to water source heat pumps.

In response to the delivery mechanism proposals, most agreed that a voucher system could work for consumers, installers, and scheme administration. Respondents generally agreed with the two-stage process and the proposed interactions of consumers and installers with the scheme administrator at each stage. They were particularly keen to ensure prompt payment of the grant to installers to avoid cash flow issues. Respondents also identified the need for expiry dates on vouchers so they could be reissued if not used. Most respondents to the further policy design proposals said that a validity period in excess of 3 months was required.

Respondents tended to agree that only high performing heat pumps should be supported, and that the minimum Seasonal Coefficient of Performance (SCOP) should be set at 2.8. The vast majority of respondents supported minimum insulation requirements, including broad support for a fabric first approach. They also supported the proposed requirement for electricity metering of heat pump installations.

Most respondents agreed with the proposed air quality requirements for biomass boilers. A minority thought these proposals were too restrictive. Stakeholders recognised the difficulty with a grant scheme in ensuring compliance with ongoing obligations, especially for biomass boilers, but agreed that only fuel that meets certain standards should be allowed to be used. Respondents broadly agreed that biomass boilers should not be encouraged in buildings that could otherwise be suitable for a heat pump but strongly challenged the reference to any building as 'hard-to-treat'. Respondents agreed installers and products should be certified by the Microgeneration Certification Scheme (MCS).

Many respondents pointed out that poor product and installation standards, as well as incorrect sizing, were the most significant consumer protection risks on a grant scheme. A grant that does not vary with the size of installation could lead to a 'race to the bottom', according to many respondents. Stakeholders thought requiring installers to be MCS certified was the best mitigation against these risks.

To control the budget, stakeholders agreed that quarterly caps on the number of vouchers that could be issued was appropriate. However, many highlighted potential negative impacts of this such as boom and bust cycles where vouchers are in high demand or short in supply, leading to supply chain disruption. Some suggested shorter budget cap periods or linking the grant value to a degression mechanism.

Most respondents thought process heating should not be supported through this scheme but did not agree that solar thermal and hybrid systems should be excluded from support.

The main risks associated with non-compliance, fraud or gaming identified by respondents were to do with inappropriately sized installations, phoenix companies that create business plans that involve aggressive selling leading to rapid sales growth, and incorrect fuel use in biomass boilers. Respondents also identified grants may be claimed for non-existent installations or multiple claims being made for the same installation.

#### Summary of the government response to stakeholder feedback

The government will proceed with the development of the Boiler Upgrade Scheme and intends for it to launch in Spring 2022. The scheme will cover England and Wales. The scheme will have a budget of £450m over 3 years, which is a significant increase from the £100m over 2 years announced at Budget 2020 and set out in the original consultation.

The Scottish Government already operates a comprehensive support package for domestic and small scale non-domestic heat and energy efficiency through Home Energy Scotland and the Energy Efficiency Business Support Service<sup>5</sup>.

The scheme will provide capital grants to support the installation of ASHPs, GSHPs, and biomass boilers in domestic and non-domestic buildings. New build and social housing will not be eligible for support under the scheme, however domestic custom builds will be eligible. Wave 1 of the Social Housing Decarbonisation Fund (SHDF), which opened for applications earlier this year, will support social landlords to improve the energy performance of their social homes to Energy Performance Certificate (EPC) Band C, taking a 'fabric first' approach.<sup>6</sup> Low carbon heat installations will be supported through Wave 1 of the SHDF where these are in alignment with the objectives of the scheme.

In response to stakeholder feedback and recent market evidence, the Boiler Upgrade Scheme will provide grants of £5,000 towards the installation and capital costs of ASHPs and biomass boilers, and grants of £6,000 for GSHPs. The scheme will support systems up to a capacity limit of 45 kWth.

With the exception of custom-build properties, heat pumps will only be eligible where they replace existing fossil fuel systems or direct electric systems and must have a minimum SCOP of 2.8. Biomass boilers will only be supported in rural areas and where they replace existing fossil fuel systems, where that system is not fuelled by mains gas, or direct electric systems. This scheme will not support fossil fuel hybrid systems or systems used for process heating.

We recognise the importance of consumer protection and ensuring installations supported through the scheme are of the highest quality. To implement this, all installers participating in the scheme must be MCS certified and members of a Consumer Code that ensures customers are protected by a Trading Standards Institute Approved Code of Practice.

There will be a voucher-based delivery mechanism led by the installer for grant application and redemption. We will continue to work with the scheme administrator to develop a robust user-tested system that works for applicants and the scheme administrator. Vouchers will have a set validity period to ensure they are utilised in a timely manner and that unused vouchers can be recycled.

To minimise non-compliance, fraud, and gaming on the scheme, robust upfront checks will be conducted before vouchers are issued and grants paid out. Suitable powers will be in place to

<sup>&</sup>lt;sup>5</sup> For more information on domestic support please see the <u>Home Energy Scotland</u> website, contact them on 0808 808 2282 or complete their <u>online form</u> for a call back. Details on support available to SMEs can be found on the <u>Zero Waste Scotland</u> website. From the 1<sup>st</sup> April 2022 the Energy Efficiency Business Support service will be operated by Energy Saving Trust. The name of this service will also be changed to Business Energy Scotland. The Scottish Government will confirm details of how to contact the new service before financial year 22/23.
<sup>6</sup> Wave 1 of the Social Housing Decarbonisation Fund

address significant cases of non-compliance or gaming and enable corrective action or the recouping of grant payments.

# Future Support for Low Carbon Heat: Boiler Upgrade Scheme

The primary objective of the Boiler Upgrade Scheme, previously the Clean Heat Grant, is to incentivise and increase the deployment of heat pumps by providing targeted support to the supply chain prior to the introduction of proposed regulatory and market-based policy levers. In combination with the wider policy levers set out as part of the Heat and Buildings Strategy package, we expect a step change in deployment to drive significant cost reductions throughout the heat pump supply chain during the rest of this decade.

The primary existing support scheme for low carbon heat, the domestic Renewable Heat Incentive (RHI), closes to new participants in March 2022. We intend to launch the Boiler Upgrade Scheme in England and Wales in Spring 2022.

The 'Future Support for Low Carbon Heat' consultation sought views on several proposals on the scheme including:

- Appropriate grant levels for eligible technologies and how grants could be best delivered
- How the scheme budget could be controlled to ensure support for the sector is maintained
- Consumer protection and features of any audit and compliance regime

Having reviewed the consultation responses and evidence, the government response is set out below.

#### Building level technologies

#### Scope of support: a maximum capacity limit of 45 kWth

### Question 22: Do you agree with targeting support at domestic and non-domestic installations with a capacity up to and including 45 kWth?

#### **Consultation proposal**

To target taxpayer funding most effectively to support the installer base and supply chain in preparation for the introduction of regulations, the consultation proposed a 45 kWth capacity limit to focus this scheme on smaller installations. It was stated most heat pump installations supported under the RHI have a capacity less than or equal to 45 kWth, while almost half of total domestic and non-domestic biomass installations have a capacity less than or equal to 45 kWth. A 45 kWth capacity limit is also consistent with that covered by MCS for a single renewable heating product. It therefore provides a framework for ensuring installation and product standards.

#### Summary of responses

We received 245 responses to this question. Of these responses, 79 selected 'Yes', 158 selected 'No' and there were 8 other responses. The 'No' response was split between respondents who believe that 45 kWth is too low and those that believe it is too high.

Lack of support within the scheme for large-scale installations was frequently raised as a problem, with the caveat that many recognised other schemes such as the Industrial Energy Transformation Fund (IETF) and Green Heat Network Fund (GHNF) will support such installations. However, there were respondents that, whilst recognising this, also pointed out that alternative support was often targeted at large projects and in practice there would likely remain a gap in support for medium-sized projects (above 45 kWth but those that might not meet the eligibility criteria of other schemes).

There were also respondents who felt that the cap of 45 kWth was in fact too high, noting that if the scheme is to be primarily aimed at domestic properties, a 20 or 30 kWth capacity limit might be more appropriate.

Part of the overall negative response to the 45 kWth proposal can therefore be explained by the assessment that this figure exceeds what some respondents judge to be a sufficient capacity to heat the average UK household, whilst falling below the installation capacity required for larger non-domestic buildings.

A final point frequently raised was around 'shared ground loop' (SGL) GSHP systems. Many respondents wanted clarification on whether the 45 kWth limit would apply to total system capacity or to individual heat pump systems connected to a shared ground loop.

#### **Government response**

We maintain that the 45 kWth capacity limit proposed in the consultation is appropriate for this scheme given the objective to build the supply chains for installing low carbon heating in existing domestic and small non-domestic buildings, in advance of the planned introduction of regulations and market-based approaches later in the decade. The 45 kWth limit is consistent with the MCS threshold for a single renewable heating unit and encompasses the large majority of the systems supported by the domestic RHI. All installations under the scheme must be completed by an MCS Contractor and thus employing the 45 kWth threshold ensures a coherent approach to consumer protection throughout the scheme.

The 45 kWth capacity limit will exclude large non-domestic installations from the scheme. The flat-rate grant mechanism and level of support offered under the Boiler Upgrade Scheme are less appropriate for the decision-making and financing of larger projects. The supply chains for many of these larger installations will be supported through other government funds including the Public Sector Decarbonisation Fund, the Industrial Energy Transformation Fund, and the Green Heat Network Fund.

The 45 kWth limit will apply to individual GSHP installations as part of a SGL system. The overall system capacity for shared ground loop systems will also be capped at 45 kWth. As set out elsewhere in this document, social housing will not be eligible for support under this scheme.

#### Grants

### Question 23: Do you agree that support for buildings technologies should change from a tariff to a grant?

#### **Consultation proposal**

The tariff structure of the RHI was designed to make investing in renewable heat financially attractive, as well as support a wide range of technologies and investor types. However, upfront cost has often been raised as a barrier, particularly for consumers who do not have enough savings to pay for the extra upfront cost of a low carbon heat system compared to a fossil fuel alternative. We proposed to move away from a tariff-based mechanism for buildings technologies and to provide the next stage of support through an upfront grant mechanism. This takes forward recommendations by key stakeholders, such as the Climate Change Committee and Public Accounts Committee.

#### Summary of responses

We received 236 responses to this question. Of these responses, 177 selected 'Yes', 54 selected 'No', and there were 5 other responses. These figures demonstrate that there is broad support for the change from a tariff to a grant.

A number of respondents from the GSHP sector proposed that the government introduce a separate grant for GHSP groundworks in addition to, or instead of, the grant for the individual heat pump unit. They suggested that this would help ensure that the grant was technology-neutral, as ASHPs do not involve an equivalent expense and a ground array is likely to last for many replacement cycles of the heat pump unit. They argued that such a measure would improve value for money due to the potential for GSHPs to operate at higher efficiencies than ASHPs and in certain applications unsuited to ASHPs. For SGL applications, respondents said that funding the ground loop would also be more practical than providing a separate grant for each property.

#### **Government response**

Support under this scheme will take the form of a capital grant to address the upfront cost of installing heat pumps and biomass boilers, rather than repaying costs over time through tariffs.

An upfront capital grant should make the scheme more accessible, helping customers overcome a proportion of the difference in cost between a fossil fuel system and low carbon alternative, making low carbon heat more marketable and encouraging further consumer demand.

The one-off payment model of a grant scheme is also likely to be simpler to administer than a tariff mechanism that provides quarterly payments, such as under the domestic RHI. This should reduce the lifetime administrative costs of the scheme and make it easier for people to understand.

Even with subsidy, we recognise that the remaining additional capital costs of low carbon heat may be a challenge for many consumers. Through existing initiatives like the Green Home Finance Innovation Fund, and a new Green Home Finance Accelerator programme which will launch in 2022, we are working with lenders to develop innovative financial products to help householders improve their homes, in addition to the direct support provided through schemes such as the Boiler Upgrade Scheme. We also expect industry to bring forward new offers in conjunction with the grant model that will lower the overall costs faced by consumers.

#### Ground source heat pumps - separate funding for ground infrastructure

Having carefully considered the ground-source industry's proposals for a separate grant for groundworks, we intend to retain the model of providing funding attached to individual heat generating plant. We will increase the GSHP grant level to £6,000 from the £4,000 that was originally consulted on.

Social housing will not be eligible for support under this scheme. Wave 1 of the Social Housing Decarbonisation Fund, which opened for applications earlier this year, will support social landlords in England to improve the energy performance of their social homes to EPC Band C, taking a 'fabric first' approach. Low carbon heat installations, including shared ground loop installations, will be supported through Wave 1 of the SHDF where these are in alignment with the objectives of the scheme.

We understand that there may be non-social housing projects where the installation of a shared ground loop system may be desirable. These will be eligible for support under the Boiler Upgrade Scheme up to a total system capacity of 45 kWth.

#### Recommended support level

#### **Consultation proposal**

We proposed a technology-neutral, flat-rate grant of £4,000 for all eligible technologies – ASHPs, GSHPs and biomass boilers. We outlined our expectation that most applicants would likely opt for ASHPs as these are lower cost than other low carbon heat alternatives. This reflects the pattern under the domestic RHI, where 81.5% of accredited installations in 2019 were ASHPs, although there is some variation depending on area. We proposed GSHPs should be eligible, with the grant working particularly well where economies of scale can be achieved, such as in shared ground loop systems. We proposed biomass boilers should be eligible, but only deployed in buildings not suitable for a heat pump.

We proposed a flat-rate grant should be offered to all sizes of installation up to the proposed 45 kWth capacity limit.

We recognised that scaling grant amounts by size of installation exists in many international schemes, although there is no convergence on the appropriate level of scaling. However, we presently have limited data on how the actual cost of heating systems, ancillaries and labour varies by system capacity in Great Britain, which limited our ability to propose a suitable level by which the grant could be varied. We also outlined experience gained from the domestic RHI which demonstrated that varying support by installation size can, in certain circumstances, lead to unintended behaviours such as installing a certain size of system to maximise support.

We stated our belief that a flat-rate grant will best meet the objectives of providing an easyto-understand framework for consumers and industry, as well as delivering scheme value for money.

#### Summary of responses

The consultation posed four different grant level questions (three multiple choice options and one requesting written views), as set out below.

#### Question 24: Do you agree with our proposal to offer a technology-neutral grant level?

We received 194 responses to this question. Of these responses, 69 selected 'Yes', 115 selected 'No', and there were 10 other responses.

### Question 25: Do you agree that £4,000 is an appropriate grant amount to meet the aims of the scheme?

We received 198 responses to this question. Of these responses, 36 selected 'Yes', 151 selected 'No', and there were 11 other responses.

#### Question 26: Do you agree with the recommendation for a flat-rate grant?

We received 209 responses to this question. Of these responses, 53 selected 'Yes', 153 selected 'No', and there were 3 other responses.

### Question 27: If you believe a variation by capacity should be considered, please provide evidence to justify a process and level for varying the grant.

We received 167 responses to this question. Stakeholders and industry representatives informed us that the grant level set for GSHPs and biomass (£4,000) was too low to encourage 'new deployment' – deployment among those that would not have deployed anyway in the absence of subsidy.

The proposal of a 'technology-neutral' grant – offering the same grant level consistent across all technologies – was also challenged by respondents. Whilst many stakeholders accepted that the £4,000 grant level could suitably maintain supply chains for ASHPs, there was a general consensus that the greater upfront cost of GSHPs and biomass boilers meant that there would need to be higher grant levels for these technologies in order for the scheme to call itself 'technology-neutral'.

Some respondents were concerned that a flat-rate grant may have the potential to encourage installations that are both cheaper and smaller. The key concern with cheap or undersized installations is that these may not maximise carbon savings, adequately meet heat demand, or function in a cost-effective manner for the consumer. Respondents argued that a flat-rate grant would cover a higher proportion of the upfront cost for a smaller and cheaper installation and therefore may encourage greater deployment in such properties.

Many respondents did acknowledge that the flat rate of the grant across all technologies would make the scheme 'simple and easy to understand'. Another argument was that the flat-rate grant would level the playing field and allow the market to choose the winner. However, this view was disputed by some respondents.

There were few alternative proposals to a flat-rate grant offered. Those that were proposed were often complex, both for the scheme administrator and consumers. This would not be in keeping with our ambition to make this scheme easy to understand for consumers and industry. The proposals offered did not sufficiently address the issue that varying support by installation size can, in certain circumstances, lead to unintended behaviours, such as installing a certain size of system to maximise support.

#### **Government response**

In response to stakeholder feedback on the grant proposals in the consultation and recent market evidence, we have increased grant levels and varied them across technologies.

In setting the grant levels, we have considered evidence on consumer willingness to pay, the current upfront capital cost of each technology, social research of domestic RHI applicants and installation data from existing schemes. In order to increase confidence in securing sufficient numbers of installations, to build supply chains in preparation for the introduction of regulatory measures, as well as grow the wider heat pump market, we have therefore revised the grant levels for the scheme.

The scheme will provide grants of £5,000 towards the installation and capital costs of ASHPs and biomass boilers, and grants of £6,000 for GSHPs. A proportionately higher grant level in relation to overall cost has been set for ASHPs given that the majority of existing properties are suitable for this technology and therefore this specific section of the market needs to grow substantially ahead of the introduction of proposed regulatory and market-based levers later in the decade, and to meet our commitment of 600,000 heat pump installations per year by 2028.

A proportionally lower grant level will be offered for biomass boilers, in recognition that biomass should play a targeted role in the overall decarbonisation of heat in buildings. However, the £5,000 grant level should ensure that there is some support to maintain the biomass supply chain following the closure of the domestic RHI and ahead of the introduction of proposed regulations to phase out fossil fuel heating in homes off the gas grid.

The scheme will offer a single grant level for each technology type which will not vary with system capacity. We maintain our position that this will provide a simpler support offer for both consumers and industry and is likely to be less burdensome to administer.

With the growth in demand encouraged under this scheme and wider market changes, we expect to see cost reductions during the lifetime of the scheme. As a result, we intend to review grant levels on a regular basis and maintain the right to adjust these in response to market changes or if uptake differs substantially from the projected range. Notification of a grant level adjustment will be provided ahead of any change coming into force.

#### Delivery mechanism

### Question 28: Please provide any relevant views to help inform development of the delivery mechanism.

#### **Consultation proposal**

We proposed a process for grant delivery that will work for consumers, installers, and the scheme administrator, which:

- Directly addresses the upfront capital costs barrier,
- Minimises the risk of fraudulent claims, and installations not being completed to a satisfactory standard,
- Ensures the right balance of roles and responsibilities between installers and consumers,

- Supports robust budget management and,
- Is as simple and cost effective as possible.

We suggested a voucher system would best achieve these aims. There are different ways a voucher system could work. It is important that the value of the voucher is passed on to the consumer early enough to reduce their upfront costs, whilst avoiding the risks that would be associated with disbursing funding prior to installation.

We proposed two broad stages of information and evidence that would need to be provided as part of the process. The first stage, voucher application, would take place ahead of the installation of the heating system. We proposed this stage would be consumer-led and require basic information about the consumer and installation. We believe this stage should be sufficiently robust to allow effective budget allocation and the early completion of some non-technical eligibility checks, while not requiring information that is too onerous to provide at an early stage.

The second stage would be voucher redemption (i.e. payment of the grant). We said it should take place after the installation, to protect taxpayers from risk of fraud and assist with mitigating and detecting non-compliance. This stage would require proof of installation, including technical evidence relating to the installation, commissioning, and building eligibility.

We proposed this stage be installer-led, with proof of installation and technical information provided by the installer. We proposed the grant would be assigned and paid directly to the installer post-installation. To address the upfront cost barrier, we said there would need to be enough certainty within this process to allow the voucher value to be discounted from the consumer's invoice.

#### Summary of responses

We received 163 responses to this question.

#### Installer cashflow

Many respondents emphasised that the delivery mechanism of the scheme would need to take account of the impact of potential interruptions to cashflow for installers. With installers needing to wait to reclaim vouchers to complete payment for an installation, margins were such that the working capital that would usually allow them to run smoothly and without financial strain could be compromised, particularly for SMEs and in situations where installers are waiting on several voucher rebates at one time.

Concern was frequently expressed in responses that, were installers to experience cashflow issues, they could seek to mitigate it through higher prices for consumers.

Some respondents made the point that, if the impact on installer cashflow were not mitigated, the grant could skew support and market share towards larger companies which might sometimes, but not always, be more able to afford payment delays.

#### Two stages of application process

Responses were broadly positive on the two-stage application process, with respondents generally understanding the need for each of the steps in the process. Likewise, there was appreciation of the need to make the first stage consumer-led and the second installer-led.

This was considered an appropriate balance: avoiding an initial potential barrier-to-entry caused by an overly burdensome initial stage but also facilitating a second stage that is rigorous enough to encourage compliance.

#### Voucher and budget availability

A concern frequently raised in consultation responses was that with potential consumers able to claim vouchers without committing to an installation, there may end up being vouchers in circulation that will never be redeemed. This could result in genuine consumers being unable to get a voucher and would increase the risk of underspend against the scheme budget.

#### Further policy design proposals

We recognised that a 3-month voucher validity period may not provide sufficient time for more complex installations, namely GSHPs. Therefore, we proposed a 6-month validity period as the default for vouchers for GSHPs. With such systems, the installer or a subcontractor has to plan and carry out excavations in addition to the work of installing the heat pump unit itself.

We considered a list of specific circumstances in which consumers should be entitled to apply for an extension to their voucher validity period.

We clarified that the validity period would be the timeframe between initial voucher allocation and submitting all required information to evidence eligibility and confirm the installation has been commissioned, such as the MCS installation certificate.

#### Summary of responses

We received 22 responses to this proposal. With regards to ASHPs, a similar number of respondents agreed and disagreed with the 3-month voucher validity period. Many of those that agreed did so on the condition that there were specific circumstances for which extensions could be granted due to unforeseen delays, for example with planning applications. Those that disagreed would prefer to see a 6-month validity period for ASHP vouchers. Some argued that all vouchers should have a 6-month validity period for the sake of simplicity, and some were concerned that 3 months would not allow installers to book installations in advance with certainty.

With regards to GSHPs, most respondents thought a 6-month validity period was sufficient. Those that thought 6 months was not long enough cited the added complexity involved with groundworks and SGL systems. Some respondents also highlighted the frequent delays that custom-builds encounter, meaning vouchers associated with custom-build projects should be valid for 6 months and be able to be extended under specific circumstances.

#### **Government response**

#### Two Stages of Application Process

In line with the consultation proposals, the process for claiming the grant will comprise of two stages: applying to receive a voucher before installation and then redeeming the voucher once the installation has taken place. Having carefully considered the balance of roles and responsibilities between the consumer and installer, our intention is now for the full voucher process to be installer-led. We believe this approach allows for a smoother and simpler consumer journey, while maintaining certainty for installers. This model is better suited to ensuring market growth and enabling industry to deliver through the grant

model at scale. However, to mitigate risks of consumer mis-selling, we intend for necessary approval to be sought from the customer as part of the application. Overall, this approach should simplify the consumer journey and streamline the voucher application and approval process.

We will work closely with the scheme administrator on the detailed design of the administration and digital solution to ensure it works for all users. This process will be informed by engagement with users and by lessons learned from the administration of previous schemes, including the RHI and Green Homes Grant. We are committed in the design of the digital solution to ensure prompt payment to installers.

#### Installer Quotes

We will require that MCS Contractors provide a quotation at the voucher application stage, prior to installation. This will provide assurance that the customer has been consulted on the installation and is aware of the likely cost. This requirement is also intended to reduce the number of speculative applications by installers. Since a single installer will lead the application process, only one quotation will be required to be submitted. However, we will encourage those customers interested in the scheme to seek out multiple quotes from different installers to ensure they are making an informed decision when they select their preferred installer. Making this clear through scheme guidance is intended to reduce the risk of price inflation or mis-selling by installers. We will continue to work with consumer bodies to develop access to impartial information and support.

#### Validity Periods

The validity period for ASHP, biomass boiler vouchers, and vouchers associated with custom-build projects will be 3 months. GSHP vouchers will be valid for 6 months. These validity periods seek to strike a balance between ensuring vouchers are only applied for and used when needed, while providing sufficient time to complete an installation. Some respondents were concerned that the proposed validity periods would not allow sufficient time for completion of the work, however we have assessed that an installer-led model should streamline the voucher process and reduces this risk.

The longer validity period for GSHP vouchers recognises the increased time and complexity for these projects compared to ASHP or biomass boiler installations.

We do not intend to proceed with the introduction of a process by which installers could apply to extend their voucher validity, as we expect these validity periods to be sufficient. An extension process would risk creating uncertainty and complexity for applicants and may encourage vouchers to be extended speculatively without the intention to complete an installation. Instead, a new application will be able to be made following the expiry of the existing voucher if budget is available.

#### Voucher and Budget Availability

In line with the budget control principles set out in the response to Question 38, the budget associated with vouchers that expire or are returned will be recycled where possible to allow maximum use of the funding available. We will ensure data regarding voucher availability is made publicly available.

### Eligibility criteria

#### Minimum insulation requirements

#### Further policy design proposals

We proposed all applicants must hold a valid EPC, meaning it should be one which has been issued in the last 10 years.

To be eligible for the Boiler Upgrade Scheme, we proposed there must be no recommendations on the EPC for loft or cavity wall insulation. We said there will be exemptions to this requirement, for example in the case of listed buildings or those located in a conservation area. We proposed that the insulation exemptions will follow those currently in place on the domestic RHI.

#### Summary of responses

Almost all respondents to this part of the 'Further policy design proposals' consultation expressed broad agreement with the proposals, including support for a fabric first approach.<sup>7</sup> There was support for replication of existing requirements on the domestic RHI, which requires applicants to hold a valid EPC. Some respondents suggested that EPCs needed to be reformed and that, to be eligible, a property ought to have been issued an EPC in the last two years.

#### **Government response**

To ensure installations are only undertaken in properties appropriate for low carbon heat technologies, a valid EPC - meaning one which is less than 10 years old - with no outstanding recommendations for loft or cavity wall insulation must be evidenced.

In the interest of simplifying the consumer journey and facilitating scheme uptake, applications may be made for properties with outstanding recommendations for loft or cavity wall insulation, given it is evidenced through a newly generated EPC at the voucher redemption stage that the installation of these types of insulation has been carried out during the voucher validity period. This is to reduce the disruption on the property owner who may wish to have the installation of the low carbon heat system and insulation carried out at the same time.

If a property does not require an EPC, or installing the recommended insulation is not possible, an application may still be made if evidence from a relevant body can be provided demonstrating that an insulation exemption applies to the property, or the requisite insulation is already installed. The same insulation exemptions that operate on the domestic RHI will apply to the Boiler Upgrade Scheme. These include reasons such as the property being a listed building or located in a conservation area.<sup>8</sup>

<sup>&</sup>lt;sup>7</sup> A 'fabric first' approach to building design involves maximising the performance of the components and materials that make up the building fabric itself, before considering the use of mechanical or electrical building services systems.

<sup>&</sup>lt;sup>8</sup> Domestic RHI insulation exemptions

Custom-build homes will not have to provide an EPC to evidence insulation eligibility since they are subject to the latest building regulations with respect to building fabric efficiency.<sup>9</sup>

It is acknowledged that several respondents would like to see a 'fabric first' approach further enforced through the scheme by mandating the need for a whole house retrofit assessment to take place under PAS 2035 before the installation of low carbon heat measures. In recognition that a significant portion of the existing building stock has the necessary thermal efficiency to accommodate a low carbon heat measure, this approach will not be mandated on the scheme. This approach is intended to strike a balance between ensuring a minimum level of insulation is in place and enabling buildings that are ready for low carbon heating to proceed without requiring a full retrofit assessment at a cost to the property owner.

#### Heat pumps: system efficiency

### Question 29: Do you agree with the minimum efficiency requirements for heat pumps and evidence requirements?

#### **Consultation proposal**

We proposed heat pumps will require a SCOP of at least 2.8. The industry has raised norms of efficiency since the RHI was introduced; the proposed uplift from the RHI minimum of a Seasonal Performance Factor (SPF) of 2.5 would build upon this progress. It would also ensure consistency with the latest Ecodesign standard and our proposed minimum standard in new build. We proposed that evidence will need to be provided that the SCOP has been calculated in line the MCS SCOP calculator, or equivalent.

#### Summary of responses

We received 162 responses to this question. Of these responses, 124 selected 'Yes', 31 selected 'No', and there were 7 other responses.

Respondents agreed that increasing the minimum SCOP from 2.5 on the domestic RHI to 2.8 on the Boiler Upgrade Scheme would be an essential part of making the scheme an overall success. The argument was often made that the SCOP needs to be high enough to ensure value for money for the taxpayer. There was consensus that sub-standard heat pumps give lesser benefits in terms of carbon savings, and it is important the government supports the installation of only the most efficient systems.

#### **Government response**

We will require that all heat pumps have a minimum SCOP rating of 2.8, an increase from the minimum SCOP rating of 2.5 on the domestic RHI. The system efficiency will be evidenced through the MCS certificate submitted by the installer at the point of voucher redemption.

There will be no ongoing obligation on customers or installers to report in-situ system performance. There are other ways through which we are increasing the evidence base around the in-situ performance of heat pumps. For example, we are currently monitoring the

<sup>&</sup>lt;sup>9</sup> Custom-build refers to cases where a builder is contracted by a homeowner to create a 'custom-build' home or where a private individual builds their home as a DIY 'self-build'. To be eligible a custom builder must be an individual not an organisation. Definitions will be set out in scheme regulations.

in-situ performance of heat pumps through the BEIS Energy Innovation Programme's Electrification of Heat Demonstration Project which seeks to demonstrate the feasibility of a large-scale rollout of heat pumps, evaluating innovative products and services and addressing barriers to deployment.<sup>10</sup>

#### Heat pumps: metering requirements

### Question 30: Do you agree with the proposal to require electricity metering for all heat pump installations?

#### **Consultation proposal**

The consultation outlined our intention to simplify eligibility requirements where possible and therefore did not propose any requirement for heat meters. However, we said we are aware of the need to increase consumer understanding of system performance and therefore we thought it proportionate to require the installation of electricity meters for heat pump installations.

#### Summary of responses

We received 157 responses to this question. Of these responses, 140 selected 'Yes', 13 selected 'No', and there were 4 other responses. A major caveat to the positive responses this question received was that many respondents felt that electricity metering would be of limited use if heat metering were not to be required on the scheme as well.

#### **Government response**

Responses to the consultation indicated that the benefits of requiring electricity or heat meters as part of the scheme are largely contingent on how much they drive awareness amongst consumers of their energy consumption or facilitate an understanding of overall system performance. Many respondents set out that electricity and heat meters would both be needed in order to accurately assess system performance. Based on this feedback and, in the interest of simplifying eligibility and facilitating scheme uptake, neither electricity meters, which specifically measure the electricity usage of the heat pump, nor heat meters will be required.

Although the installation of a smart meter will not be an eligibility requirement for support under the Boiler Upgrade Scheme, we recognise the benefits smart meters have for consumers with heat pumps. For example, enabling access to cost-saving, smart 'time of use' tariffs. When households have smart meters installed, they are also offered an In-Home Display (IHD) which provides near real-time energy consumption and cost information, making it easier for households to understand how to use less energy and save money on their bills. We will therefore explore options to raise awareness of the benefits of smart meters alongside low carbon heat technologies through the scheme. The government has also confirmed that a new four-year smart meter policy framework with fixed minimum annual installation targets for energy suppliers will commence on 1 January 2022 to drive the consistent, long-term investment needed to achieve market-wide rollout of smart meters.

<sup>&</sup>lt;sup>10</sup> Electrification of Heat Demonstration Project, BEIS

#### Biomass: air quality

#### Question 31: Do you agree with the proposed air quality requirements?

Question 32: Do you have any comments on how best to ensure ongoing compliance with fuel sustainability and quality requirements following the redemption of a grant?

#### **Consultation proposal**

The consultation stated our intention to avoid incentivising burning biomass in urban areas and proposed that installations in these areas will be ineligible for receipt of grant funding for biomass. We proposed a common threshold of settlements of 10,000 or more to define urban areas.

The carbon savings of transitioning away from natural gas to biomass would be less than when replacing the high carbon fossil fuels that predominate off the gas grid. Supporting the use of biomass on the gas grid would also introduce significant new particulate pollution in areas where particulate pollution is already likely to be greater. The consultation stated it is not appropriate to provide support to biomass installations in areas served by the gas network.

We proposed to carry over the approved fuel and emissions certificate requirements from the domestic RHI and therefore all biomass installations would require an emissions certificate from a certified body.

In the consultation we proposed biomass boiler owners must use approved sustainable fuel listed on the BSL (Biomass Suppliers List) or an equivalent scheme. We anticipate that biomass fuel on this scheme will be subject to the same fuel quality measures proposed in the consultation on the "Non-Domestic Renewable Heat Incentive – Ensuring a Sustainable Scheme", subject to the outcome of that consultation.

In the government response to the consultation on biomass combustion in urban areas, we committed to working towards an industry standard for maintenance checks to tackle poor maintenance of boilers and this will be developed alongside this scheme.

#### Summary of responses

Question 31 received 111 responses. Of these responses, 76 selected 'Yes', 28 selected 'No', and there were 7 other responses.

Several respondents argued that biomass deployment should not be restricted to areas off the gas grid. The main arguments were that the gas grid will not be decarbonised for a long time and in the intervening years people may wish to install a biomass boiler if they do not want to burn fossil fuel and a heat pump is not suitable for their building. Some respondents saw the proposed off-gas grid criteria as detrimental to the UK's decarbonisation efforts since properties on the gas grid that are not suitable for a heat pump could have very limited choices if biomass was not supported for on-grid properties. A common theme amongst these respondents was that if emissions standards are met, biomass should be supported, no matter what fuel the existing heating system used.

Respondents were in general agreement that support for biomass deployment should not be given for installations in urban areas due to air quality concerns. However, some stakeholders

said that emissions standards for biomass boilers are already high, and that deployment should be allowed in urban areas.

A small number of respondents mentioned the need for a maintenance standard to be introduced on the scheme to ensure emissions from biomass boilers are controlled. Concerns were raised about how compliance with the maintenance standard would be enforced.

A small number of stakeholders highlighted the approach other countries such as Germany are taking to support biomass. They argued that using a similar approach to these countries by providing support based on the emissions profile of biomass boilers and providing support to biomass boilers on the gas grid where they meet the highest emission standards would be appropriate. Related to this point, a handful of stakeholders pointed out that a small grant relative to the overall cost of the biomass boiler encourages the sale of cheap, relatively poor-quality boilers that may have higher emissions. They suggested a grant based on boiler efficiency and carbon savings would help combat this "race to the bottom".

A few respondents highlighted the fact that real-world performance of biomass boilers can be lower than when they were tested under ideal conditions. They quoted a BEIS research paper that identified particulate emissions from biomass could be 2 to 8 times higher than the standard laboratory emission rates, and that this should be taken into consideration when setting minimum emissions standards.<sup>11</sup>

Question 32 received 69 substantive responses. The most common response was that enforcement of ongoing obligations would be difficult with a grant-based scheme. Most were, however, keen that some sort of post-grant inspection regime should be put in place to ensure compliance with fuel sustainability and quality requirements. There were a variety of suggestions for how this could be achieved, including annual planned audits and random audits.

Some respondents thought the scheme should require an annual maintenance check to be carried out on biomass boilers. Annual reporting of fuel usage was also a popular suggestion; however, stakeholders realised the difficulty of enforcing this under a grant scheme with no threat of withholding future payments. Retaining fuel purchase receipts was also a common suggestion. Some stakeholders suggested the applicant could make a declaration at the application stage that they would use the correct fuel.

Many stakeholders raised the point that since ensuring ongoing compliance by the consumer is difficult and potentially expensive to enforce, the focus could be on the suppliers of suitable fuel so consumers can only buy high quality, sustainable fuel.

Stakeholders suggested that EN*plus*® A1 was a suitable certification requirement to ensure quality of wood pellets. They said the vast majority of wood pellets used in the UK are already EN*plus*® certified. One stakeholder said "most modern wood pellet boilers actually specify that their warranties only apply if they use EN*plus*® A1 pellets. If the pellet fuel is EN*plus*® certified, and of the appropriate grade to match the emissions certificate, this would automatically satisfy the fuel quality requirement."

Respondents were very supportive of the requirement to source fuel from suppliers listed on the BSL. A key point raised several times was that audits to check sustainability and quality of fuel should be combined, avoiding the need for two separate inspections.

<sup>&</sup>lt;sup>11</sup> BEIS Research Paper no: 2019/022

#### **Government response**

The Boiler Upgrade Scheme will support biomass boilers which are only capable of using a liquid to deliver heat. Biomass stoves that radiate heat into a room will not be eligible for support.

Support will not be offered for biomass boilers in urban areas. Support will only be offered to biomass boilers in rural areas, meaning areas outside of settlements with a population of 10,000 people or more.<sup>12</sup> The classification of any given location will be determined at postcode level using the Office for National Statistics Postcode Directory look-up tool. Stakeholders were in general agreement with this restriction due to air quality concerns in urban areas. We recognise the consultation responses highlighting the already high standards for emissions from biomass boilers but do not want to incentivise new particulate pollution in urban areas where levels are already likely to be higher.

Support will not be offered for biomass boilers replacing natural gas boilers connected to mains gas. In response to concerns from some stakeholders, buildings in areas identified as on the gas grid but not connected will be eligible for support provided all other eligibility criteria are met, including the requirement to be located in a rural area. We understand the viewpoints of several stakeholders that if a biomass boiler meets emissions standards, then it should be allowed to be installed in any location and that the gas grid will not be decarbonised for many years. However, we are of the view that the most effective use of biomass for heating is to replace the most polluting fossil fuels, most uses of which are off the gas grid. In addition, buildings with an existing supply of natural gas may have other decarbonisation options in the future not appropriate for buildings off the gas grid.

We will carry over the emissions certificate requirements from the domestic RHI.<sup>13</sup> This means, amongst other requirements, all biomass boilers supported through this scheme will need an emission certificate from a certified body that confirms emissions of particulate matter did not exceed 30 g/GJ net heat output and emissions of oxides of nitrogen did not exceed 150 g/GJ net heat output when tested. Some stakeholders highlighted the higher real-world emissions of particulate matter in comparison to laboratory testing. We have considered this issue and believe the current emissions limits are appropriate, especially in combination with geographical requirements.

Due to the move to an installer-led scheme there will be no ongoing obligations on biomass boiler owners, however we recognise that appropriate fuel use and boiler maintenance are vital to minimise emissions and improve system efficiency. We expect that, in accordance with MCS standards, installers will provide written information to customers which include details of the appropriate fuel for their system and maintenance requirements following completion of the installation.

<sup>&</sup>lt;sup>12</sup> 2011 Rural Urban Classification

<sup>&</sup>lt;sup>13</sup> Emission Certificate information

#### Biomass: building efficiency

Question 33: Please provide views on the appropriate requirements for the heat loss calculation, as well as the minimum heat loss value that should need to be demonstrated.

Question 34: Please provide views on any other criteria to ensure that biomass support is focused on hard-to-treat properties only.

#### **Consultation proposal**

The consultation stated our intention to limit the use of biomass to hard-to treat-properties only. We proposed that a heat loss calculation for the building would need to be provided. This would demonstrate that a minimum heat loss value has been exceeded and the installation of a biomass boiler over a heat pump is justified.

We proposed that the heat loss assessment would be completed and signed off by the installer or another qualified assessor, in accordance with British Standard EN 12831, which is consistent with current MCS standards. We welcomed views on the appropriate format for this heat loss calculation, as well as minimum heat loss value that should need to be demonstrated for biomass to be installed.

We also sought views on any additional criteria that should be considered which would ensure installation of biomass is not carried out in properties that could be made suitable for heat pumps through other proportionate interventions.

#### Further policy design proposal

We proposed that in order to be eligible to install a biomass boiler under the scheme, an applicant will need to demonstrate that the peak specific heat demand of the building exceeds a threshold between 100-150 W/m<sup>2</sup> and be calculated in accordance with BS EN 12831.

#### Summary of responses

Question 33 and Question 34 received 83 and 82 responses, respectively. The 'Further policy design proposal' received 30 responses.

There was broad support for the intention to limit support for biomass to those that can demonstrate their building is not suitable for a heat pump or considered 'hard-to-treat'. However, it was highlighted several times that referring to a building as 'hard-to-treat' is not appropriate, especially from those responding to the 'Further policy design proposals' consultation. Respondents said almost any building can be effectively heated by a heat pump or a fossil fuel hybrid heat pump system and that the difficulty in treating a building is more down to the energy required and the economics of supplying it, not just the building fabric itself.

A similar number of respondents both agreed and disagreed with the suggestion that a heat loss assessment alone was a good measure of a building being unsuitable for a heat pump. Of those that disagreed, many highlighted other factors that could mean a building would be better suited to a biomass boiler. For example, many buildings only have a single-phase electricity supply, limiting the capacity of a heat pump that could be installed without incurring major expense in upgrading the electricity supply. Respondents also mentioned the high flow temperatures required by a heat pump, space constraints, listed building status, buildings in conservation areas, availability of local biomass, and high hot water demands. Some stakeholders suggested a retrofit assessment prepared under PAS 2035 would be appropriate when considering factors that determine suitability for any heating system.

Respondents were in general agreement that if heat loss was considered, it should be calculated in accordance with BS EN 12831. Some highlighted concerns about the number of people qualified to perform accurate heat loss assessments. One respondent said that, in their experience, heat loss calculations can be easily manipulated and therefore offer limited assurance on actual heat loss. They said this is particularly the case where the objective is to make it seem like there is a higher heat loss value where assessors can use a worse fallback value than necessary.

Some stakeholders said a fabric first approach should be taken in order to reduce heat loss, with a heat loss assessment then being performed on the basis of the improved fabric.

Evidence was provided as to what level of heat loss would be appropriate, especially in response to the 'Further policy design proposals' consultation. Examples where heat pumps were working effectively in buildings with a heat loss up to 150 W/m<sup>2</sup> were provided and respondents were clear that a building with a heat loss of 100 W/m<sup>2</sup> could comfortably be heated by a heat pump. A few stakeholders thought the threshold should be lower, with one citing the role of biomass in supporting rural jobs.

#### **Government response**

We will not require applicants wishing to install a biomass boiler to demonstrate the building has a heat loss above a certain threshold in order to be eligible for support.

It was clear from the consultation responses that buildings with a heat loss of below 100 W/m<sup>2</sup> could easily be heated by a heat pump. However, there was less certainty from stakeholders as to what threshold was most appropriate to determine the point at which a biomass boiler may be more suitable than a heat pump. This is because many factors other than heat loss contribute to the suitability of each building for a heat pump. Stakeholders were keen that installers and consumers were the best judge of suitability for a certain technology. In any case, heat loss calculations and correct sizing of systems are required by MCS standards, so only appropriate systems should be installed in any building. We think it would be too restrictive and simplistic to require applicants installing a biomass boiler to show a heat loss above a threshold of more than 100 W/m<sup>2</sup>. If we set the threshold at 100 W/m<sup>2</sup>, it is likely the number of biomass boilers supported by the scheme would not change significantly from the number we expect if there was no requirement to demonstrate a certain heat loss.

We will therefore not require a heat loss demonstration, ensuring the scheme is simple to apply to and administer. Biomass installation numbers seen on other schemes such as the domestic RHI and Green Homes Grant do not give us any reason to believe biomass deployment will be significantly higher on the Boiler Upgrade Scheme. The restrictions on where a biomass boiler can be installed and limits to its emissions leads us to believe a heat loss demonstration at the application stage is not necessary for this scheme.

#### Consumer protection

Question 35: What do you consider to be the main consumer protection risks of providing support through an upfront grant and how might they be mitigated?

#### **Consultation proposal**

The consultation stated that as part of the current MCS certification process, installers must be members of a consumer code that has been approved by the Chartered Trading Standards Institute (CTSI). There are currently three CTSI approved codes involved with the RHI; the Renewable Energy Consumer Code (RECC), the Home Insulation and Energy Systems Contractors Quality Assured Contractors Scheme (HIES) and the Glass and Glazing Federation (GGF). The consumer codes set out standards that installers must meet in contracting with consumers. The codes cover advertising and promotion, estimates and quotes, cancellation rights, and protect against mis-selling.

We proposed that MCS certification or equivalent for products and installers, and installer membership of a consumer code will be required for this scheme. This would avoid the significant costs and duplication of effort for the government and industry that would be required in introducing a separate system of consumer protection.

#### Summary of responses

We received 139 responses to this question. Many respondents pointed out that poor product and installation standards and under-sizing were the most significant risks on a grant scheme. Respondents were concerned about a lack of incentive to install the most suitable system since the grant amount is not related to the size or type of installation. Many said the relatively small grant amount in relation to installation costs could mean installers might try and push down their costs by under-sizing installations or reducing quality.

Respondents were largely satisfied that most consumer protection risks could be mitigated by ensuring MCS installer and product standards are applied, and installers are members of a consumer code such as the RECC or HIES. Whilst there was criticism of MCS by some, there was a consensus that they are the best-equipped organisation to ensure the degree of risk mitigation and consumer protection required. Many respondents suggested that installers being MCS certified was crucial to the success of any audit scheme. One respondent was concerned about the "MCS or equivalent" statement in the consultation since this causes ambiguity in the marketplace unless equivalence is clearly defined. This would avoid equivalence being self-declared and different standards existing in the sector.

A number of respondents noted the benefits of the whole house retrofit approach and in particular referenced the results of the Each Home Counts Review and a role for TrustMark and PAS 2035 within the Boiler Upgrade Scheme. Some respondents were concerned that people could apply for and be issued a voucher without any need to determine their home's suitability for a heat pump, for example.

Respondents emphasised the importance of educating consumers and ensuring that they are well informed enough about the scheme to be resistant to tactics such as pressure selling on the part of installers. This was highlighted as being particularly applicable to more vulnerable sectors of the population such as the elderly and those in fuel poverty.

#### **Government response**

We will require installers (and the installed system) to be MCS certified or equivalent and a member of an appropriate consumer code such as the RECC or HIES. Evidence of MCS certification will be required at voucher application and MCS certificates will need to be submitted by the installer when a voucher is redeemed to ensure the installation is compliant with scheme requirements.

In advance of the launch of the Boiler Upgrade Scheme, MCS are expected to have consulted on a revision to the consumer protection offering that aims to increase consumer confidence in installations and reduce administration costs for contractors. As consulted on last year, MCS will introduce a revised Heat Pump Standard (MIS 3005) and allow contractors to be certified in design or installation or both. This is intended to better reflect the way the heat pump installation market operates since many installers only wish to install systems and not be responsible for their design. MCS intend to launch a new digital platform to ensure MCS documents are more readily available and relevant to an installer's everyday activities. They are encouraging certification bodies to adopt a risk-based compliance audit regime that will reward an installer's continued compliance and ensures resources are focused on installers that represent the greatest compliance risk. A responsive inspections resource that can work closely with BEIS and the scheme administrator is also being developed, which is managed directly by MCS rather than via third party certification bodies. In addition, consumer codes require that the MCS contractors provide a workmanship warranty for a minimum of 2 years, equipment guarantee, and customers will receive an insurance backed guarantee policy that covers workmanship in the event the contractor ceases to trade. This will better support consumers if they encounter a problem with their installation.

BEIS have also recently published a consultation on Reforming Competition and Consumer Policy<sup>14</sup> which sets out proposals to improve consumer protection in the home retrofit sector through strengthening the powers of local authority trading standards in tackling rogue traders and requiring all consumer complaints around home improvements to be subject to arbitration.

A whole house retrofit approach is something that the government is strongly supportive of and will be adopted under BEIS energy efficiency support schemes.<sup>15</sup> We believe that if a customer's starting position is that they want to understand how best they can decarbonise their property then employing a retrofit coordinator to work to PAS 2035 and prepare a medium-term improvement plan is best practice. We expect the low carbon heat industry to be supportive of this approach to deliver the best outcomes for consumers.

We will encourage customers to undertake a whole house assessment when considering the installation of a low carbon heat system under the Boiler Upgrade Scheme, however it will not be a mandatory eligibility criterion. We have assessed that a significant portion of the existing building stock meets the minimum thermal efficiency requirements for low carbon heat which can be demonstrated through a valid EPC. In order to simplify the consumer journey and avoid additional costs in the transition to low carbon heat, a full retrofit assessment is not deemed necessary.

We will not require installers participating in the Boiler Upgrade Scheme to be TrustMark registered. All low carbon heating installations logged on the MCS Installation Database

<sup>&</sup>lt;sup>14</sup> Reforming competition and consumer policy consultation

<sup>&</sup>lt;sup>15</sup> Whole house retrofit

(MID) will continue to be automatically accessible via the TrustMark database with no further administrative work required by MCS certified installers.

The government recognises the importance of consumer engagement and education when it comes to consumer protection in the low carbon heat sector. We will therefore continue to work with key bodies in the sector to develop access to impartial information and support for consumers.

#### Financial management of funding delivery

#### Budget control

Question 37: Do you agree that quarterly grant windows would prevent overspend and manage demand to ensure an even spread of deployment?

#### **Consultation proposal**

We proposed to issue vouchers on a first come, first served basis to applicants who meet the initial eligibility criteria. To mitigate the risk of the budget being depleted more quickly than expected, we proposed limiting the number of vouchers that could be issued per quarter. The consultation outlined the advantages of this approach, which included helping maintain control over scheme costs, avoiding intermittent deployment, and ensuring demand is spread out across the year while keeping administration manageable. We consider that these measures will increase industry confidence in the scheme's ability to support continued deployment throughout its duration.

#### Summary of responses

We received 130 responses to this question. Of these responses, 59 selected 'Yes', 54 selected 'No', and there were 17 other responses. The split of views likely stems from the fact that many responses identified issues with the original budget and proposed length of the scheme (£100m over two years), rather than the proposal directly. Some felt that the lack of detail on the budget control proposals provided in the consultation prevented them from taking a firm view.

Respondents frequently commented that the overall budget for the scheme was too low to achieve the deployment of renewable heating systems needed to meet the government's net zero target. Several stakeholders also identified that strong demand for vouchers should be a signal that the scheme is a success, and more funding is required to meet government's commitments to net zero. For many stakeholders, restricting outgoing funds intermittently would represent a restriction on the potential success of the scheme.

In relation to the proposal itself, stakeholders were concerned that quarterly caps would lead to boom-and-bust cycles that disrupt supply chains. It was argued that limiting the number of vouchers that can be issued per quarter could lead to a significant proportion of the available budget being allocated in the early part of the quarter, meaning no new applications would be allowed for the remainder of the quarter. They said this could mean those who wanted to apply would therefore have to wait until the next quarterly window opened. Stakeholders pointed out that this would not be desirable for those making distress purchases or for installers suffering delays in their sales pipeline with customers who are on hold and waiting for the next quarterly

window to open. However, respondents did recognise the need for spending to be controlled and support for the sector to be maintained throughout the whole scheme.

The most popular alternative solutions proposed to achieve the budget control necessary, were to reduce the length of each window from 3 months to monthly or shorter periods or to implement a degression mechanism. It was argued that windows should be as short as practically possible to minimise the boom-and-bust effect. Several stakeholders thought a degression mechanism like that seen on the domestic RHI would be better. This would involve reducing or increasing grant levels in response to demand for vouchers.

Respondents said lessons should be learnt from the Feed-in-Tariff and that to set quarterly budget caps too low would create a back-up of those who wanted to apply for a voucher. Stakeholders argued this could lead to a lottery situation, favouring those with greater resources or in areas with better infrastructure or existing supply chains. Factors identified in responses to the consultation that could bring about this inequality include:

- Superior internet speed
- Disposable cash more readily available to the wealthy, meaning less planning required, and the fuel poor not having the planning time needed
- Areas with existing supply chains for renewable heating technologies are better equipped to provide consumers with ready-made quotes so they are set to claim vouchers on the day of release

Several respondents identified that pressure selling could become an issue with quarterly windows. They highlighted installers may rush customers into a decision since funding could be about to run out.

#### **Government response**

We recognise the issues stakeholders have identified with the overall budget and scheme length. As part of the Spending Review 2021, the scheme budget has been expanded to  $\pounds450$  million across three years, from 2022/23 to 2024/25.

We understand stakeholders concerns regarding the quarterly voucher allocation windows and the potential disruption this could cause to the market through boom-and-bust cycles. In recognition of this and the significantly expanded budget, we believe limiting the number of vouchers issued each quarter will not be necessary and thus we will allow for free allocation of vouchers across the financial year. However, this will remain under review based on deployment data and available budget. In order to manage the budget and prevent any programme overspend, there will be caps on annual voucher allocations.

We will ensure vouchers that expire or are voided can be recycled and their value returned to the available budget for the scheme, where government budgeting rules allow. Validity periods on vouchers will ensure that the value associated with the voucher is spent or reallocated in a timely manner, maximising the use of available funding. Vouchers issued in one financial year will remain redeemable in the following financial year in accordance with their validity period.

The scheme administrator will implement a queueing system, if necessary, if the budget cap for the financial year is reached. We will ensure data on voucher availability is made publicly available.

#### Technologies and uses not supported through this policy

#### Process heating

### Question 38: Do you agree with not supporting process heating under this scheme?

#### **Consultation proposal**

The consultation stated that whilst process heating has been eligible for support under the non-domestic RHI, the purpose of the Boiler Upgrade Scheme is to provide targeted support for space and water heating in buildings, ahead of the future phase-out of high carbon fossil fuel heating.

Other lower-temperature process heat uses, such as wood drying, waste drying, crop drying, and aquaculture, have had a history of poor value for money and are no longer eligible for the RHI. We proposed these should remain excluded from future support.

#### Summary of responses

We received 131 responses to this question. Of these responses, 74 selected 'Yes', 50 selected 'No', and there were 7 other responses. A general consensus emerged from respondents that process heating requires a separate type of intervention to the Boiler Upgrade Scheme. Where negative responses were given to the question, these did not provide clarity on how process heat uses might be supported through the grant framework of this scheme.

#### **Government response**

The Boiler Upgrade Scheme will provide targeted support for small low carbon heat installations in order to increase deployment of heat pumps and grow supply chains ahead of the introduction of proposed regulatory and market-based policy levers later in the decade. Given this strategic focus, support for industrial heat uses will not be included on the scheme.<sup>16</sup>

Government's approach to the decarbonisation of industrial heat is set out in the Industrial Decarbonisation Strategy published in March 2021.<sup>17</sup> The focus of the strategy is on low regrets actions in the 2020s, such as the installation of commercially ready electrification options in low temperature industrial processes whilst testing hydrogen as a fuel for heating in industrial processes. Decarbonisation of process heating is included in the scope of several government schemes. For example, the Industrial Energy

<sup>&</sup>lt;sup>16</sup> Industrial heat use is defined as the use of heat to carry out a specific process such as industrial cooking, drying, (including drying of wood and other biomass fuels), pasteurisation or chemicals manufacture. Other examples include heat that is used for cooling, e.g. passing renewable heat through absorption chillers <sup>17</sup> Industrial Decarbonisation Strategy

Transformation Fund aims to help businesses with high energy use to invest in low carbon technologies to reduce carbon emissions and energy bills.<sup>18</sup>

#### Hybrids

#### Question 41: Do you agree with not supporting hybrid systems under this scheme?

#### **Consultation proposal**

The consultation stated that whilst there is significant variation in the types of hybrid system or appliance available today, we typically refer to hybrids as a combination of a heat pump and fossil fuel boiler, with most systems using an ASHP. This includes systems that are integrated into a single appliance or consist of a separate boiler and heat pump, which form part of the same system. Hybrid systems are currently supported on the domestic RHI, with a requirement for the heat output from the renewable technology to be metered for payment.

We set out that we were not minded to support hybrid heating systems through the Boiler Upgrade Scheme. This includes hybrids that might be installed in both off and on gas grid areas. Given the limited funding available we consider that the Boiler Upgrade Scheme should be directed towards the technologies that offer the greatest carbon savings, rather than those which would continue the burning of fossil fuels for heating.

We stated that a further consideration informing our position is the limited available evidence on how hybrids perform in practice in off gas grid installations, where the Boiler Upgrade Scheme is targeted. There is an inherent risk in a hybrid system that the fossil fuel boiler may still meet a significant amount of the property's heat demand, depending on usage. This could mean that carbon savings delivered by hybrid systems are lower in practice than anticipated.

The consultation acknowledged that in off gas grid areas, a future transition from heating oil and LPG to biofuels may allow the boiler element of a hybrid system to decarbonise and we recognise the work taking place within the oil and LPG industries to that end. However, we do not yet have sufficient evidence to take decisions on the potential role of biofuels in this context or that the necessary quantities of sustainable biofuel would be available to match heating demand, given competing alternative uses in transport and heavy industry.

#### Summary of Responses

We received 206 responses to this question. Of these responses, 81 selected 'Yes', 121 selected 'No', and there were 4 other responses. When assessing responses to this question, there was variation in how the consultation question was interpreted. Whilst the 'hybrid systems' in the question referred primarily to heat pumps working in conjunction with fossil fuel boilers, many of the responses (particularly 'no' responses) took 'hybrid systems' to include those that had multiple sources of renewable energy, such as a heat pump that works in conjunction with a solar thermal system. Some of those who disagreed with the proposal were opposed to fossil fuel hybrid heat pumps but wanted to see hybrid systems that had two renewable inputs supported under the scheme.

<sup>&</sup>lt;sup>18</sup> £289m of which will be delivered by BEIS across England, Wales and Northern Ireland. With the remainder being delivered by the Scottish Government in Scotland in a counterpart Scottish IETF

A frequent suggestion made by those who would like to see hybrid systems supported within the scheme, was that they could receive a lower grant level of, for example, £2,000.

#### **Government response**

We maintain that hybrid systems – a system comprising of a heat pump and fossil fuel boiler – will not be eligible for the Boiler Upgrade Scheme. The introduction of planned regulations to phase out fossil fuel heating in existing buildings off the gas grid later in the decade will require off gas grid properties to transition to low carbon heat solutions that are able to fully decarbonise a building. On this basis we feel that the available funding under the Boiler Upgrade Scheme should be targeted at systems that maximise carbon savings and are compatible with this approach.

To receive support under the scheme, an eligible technology must be installed – an ASHP, GSHP or biomass boiler. This eligible technology must be capable of meeting the full space and water heating demands of the property.

A low carbon heating technology not directly supported through the Boiler Upgrade Scheme, such as a solar thermal system, may be retained or installed alongside an eligible technology, provided the eligible technology is capable of meeting the full space and water heating demands of the property. For example, if an ASHP is installed that is designed to meet the full space and water heating demand of the property, a solar thermal system may also be installed. The Boiler Upgrade Scheme will not contribute towards the cost of the solar thermal system.

The key principle behind this approach is that the scheme will not provide support to eligible technologies which are not capable of meeting the full space and water heating demands of a building.

Based on the consultation responses received, and our learnings from the Green Homes Grant scheme, we recognise that it is important to clearly define hybrid systems and their eligibility under the Boiler Upgrade Scheme.

Hybrid systems, as defined in our original consultation, are systems comprising of a combination of a heat pump and fossil fuel boiler, with most systems using an ASHP. This includes systems that are integrated into a single appliance or consist of a separate boiler and heat pump, which form part of the same system. We are aware that these systems can be referred to as bivalent systems within industry as well. To clarify, fossil fuel hybrid systems that utilise a biomass boiler and a fossil fuel system would also be excluded.

A 'heat only' system comprises a setup up where the space heating and water heating systems are two separate heating systems, with an eligible low carbon technology providing space heating and hot water provision covered by a fossil fuel boiler. Due to the intention to target the support available under the scheme at technologies that maximise carbon savings and are compatible with the planned introduction of off gas grid regulations, 'heat only' systems will not be eligible for support.

There will not be restrictions on the installation of electric immersion heaters where these are required for the purposes of legionella sterilisation or providing top-up heat.

Government will continue to consider the role that gas and electric hybrid systems may play in the longer-term decarbonisation of heat on the gas grid. To address this, we are prioritising activity to collect further data on hybrid heating systems performance and have included them in our large-scale Electrification of Heat Demonstration Project.<sup>10</sup>

#### Solar thermal

### Question 40: Do you agree with not supporting solar thermal systems under this scheme?

#### **Consultation proposal**

We proposed that whilst it is possible that solar thermal will play a role in the long-term decarbonisation of heating in the UK, it is not a stand-alone solution for phasing out fossil fuels within buildings. As such, we proposed not to support it through this policy mechanism.

The consultation stated that in 2016, we proposed removing support for solar thermal under the RHI. At the time, this proposal was not taken forward on the basis that responses to the consultation suggested continued support would drive greater deployment and cost-reduction.<sup>19</sup> However, despite tariffs for solar thermal under both the domestic and non-domestic RHI being high relative to other technologies, deployment has remained low. In 2019, solar thermal accounted for approximately 3.5% of applications to the domestic RHI and less than 1% of applications to the non-domestic RHI.<sup>20</sup>

As outlined in the consultation, we are not aware of any evidence of cost reduction or any additional strong evidence to suggest that supporting solar thermal water heating through this scheme would prove to be an effective measure for preparing supply chains for the future phase-out of high carbon fossil fuel heating.

#### Summary of responses

We received 179 responses to this question. Of these responses, 46 selected 'Yes', 128 selected 'No', and there were 5 other responses. In the main there was disagreement with the proposal to exclude solar thermal systems from support through this scheme. Some who answered 'no' were also concerned that solar thermal would not be allowed as part of a hybrid system in combination with a heat pump or biomass boiler.

Many respondents pointed out that solar thermal technology is most effective when combined with other technologies and thus should be supported on this scheme in conjunction with heat pumps and biomass boilers. Others stated that very energy efficient buildings could benefit more from solar thermal systems due to their lower space heating demand compared to a less energy efficient building.

A frequently raised point was that although it is stated in the consultation that part of the rationale for not having solar thermal on the scheme is that it is not seen as a standalone technology, this does not detract from its capacity to significantly reduce heating emissions and costs for the consumer. Rather, by combining it with heat pumps or biomass boilers, its potential can be unlocked. Furthermore, the notion of heat pumps themselves being a standalone technology, or operating best as a standalone technology, was challenged.

<sup>&</sup>lt;sup>19</sup> BEIS (2016) <u>Renewable Heat Incentive Consultation: Government Response</u>

<sup>&</sup>lt;sup>20</sup> BEIS (2020) <u>Renewable Heat Incentive Deployment Statistics</u>, table M1.2 and M2.2

Several respondents recommended a grant level of circa £1,000 for solar thermal, with broad recognition that the technology is far cheaper than heat pumps and that this would represent a similar ratio of funding to the rates presented in the consultation document.

#### **Government response**

Solar thermal systems will not be eligible for support under the Boiler Upgrade Scheme. We recognise that solar thermal systems can play a role in contributing to the decarbonisation of heat in buildings and understand their potential to work alongside other low carbon heat technologies. However, we want to ensure that the budget for the Boiler Upgrade Scheme is targeted at technologies with the greatest potential for fully decarbonising space and water heating in buildings.

Solar thermal systems can be installed as part of a heat pump or biomass system that is funded by the scheme, as long as the heat pump or biomass boiler is able to meet the full space and water heating demand.

#### New-build eligibility and social housing

#### Further policy design proposals:

We said our intention was that only existing buildings and custom-build homes<sup>9</sup> will be eligible for the Boiler Upgrade Scheme. We proposed not to support new-build<sup>21</sup> as developers and purchasers are more able to absorb the costs of low carbon heat installation.

We said our intention was to continue support for custom-build as we recognise that individual self-builders do not benefit from the same economies of scale as housing developers and their installations correlate with building the supply chain that will be relied upon for retrofitting individual small buildings.

#### Summary of responses

There were 14 responses to this section of the 'Further policy design proposals' consultation and there was strong overall support for these proposals with the vast majority expressing agreement. Several respondents pointed out that whilst it is appropriate that the Boiler Upgrade Scheme should only support retrofit installations, this should not be an impediment to overall government support for heat pumps in new-build properties. Several respondents highlighted the importance of the Future Homes Standard and the need to introduce it within the timeframe proposed. Respondents also highlighted that the definition of 'new-build' and 'custom-build' should be clarified.

#### **Government response**

As clarified in the 'Further policy design proposals' consultation, new-build properties will not be eligible for the Boiler Upgrade Scheme. Support under this scheme is targeted at phasing out fossil fuel heating in existing buildings and building supply chains ahead of the introduction of proposed regulatory and market-based levers later in the decade. The new-

<sup>&</sup>lt;sup>21</sup> New build refers to cases where a commercial developer or a social landlord has built the property using company funds, even if the properties are later sold to individuals. Definitions will be set out in scheme regulations.

build market does not face the same challenges both practically and financially as the retrofit market.

We have seen significant deployment of low carbon heat in the new-build market already without the presence of government subsidy. The government's commitment to tighten building regulations and to future proof buildings with low carbon heat through the Future Homes Standard has given a clear signal to the new-build market, which has established supply chains to meet future regulatory requirements.<sup>22</sup> Supporting installations in new-build would not generate significant carbon savings and will not provide value for money.

We maintain that support will be available for new custom-build properties as these properties do not benefit from the same economies of scale as large new-build developments and therefore can face similar high upfront costs to retrofit installations. We will set out definitions for new buildings and custom-builds in scheme regulations.

#### Social Housing

Social housing, both new and existing, will not be eligible for support under the Boiler Upgrade Scheme. This applies to both new and existing buildings. However, Wave 1 of the Social Housing Decarbonisation Fund (SHDF), which opened for applications earlier this year, will support social landlords in England to improve the energy performance of their existing social homes to EPC Band C, taking a 'fabric first' approach. Low carbon heat installations will be supported through Wave 1 of the SHDF where it is in alignment with the objectives of the scheme.

#### Compliance

#### Participant compliance

Question 43: What are the main risks of non-compliance, fraud or gaming associated with this scheme?

### Question 44: What would be the most important features of an audit regime to minimise the risk of non-compliance?

#### **Consultation proposal**

We proposed to work with the scheme administrator and key stakeholders, including MCS, its certification bodies and consumer code organisations, to design a scheme that minimises the opportunity for non-compliance, and to design appropriate controls to ensure that non-compliance is identified, including an audit regime. The consultation said it is essential that there is a robust, up-front compliance regime, for instance to check evidence of installation, commissioning and eligibility criteria.

We proposed that the scheme administrator should have the ability to:

<sup>&</sup>lt;sup>22</sup> <u>Future Homes Standard Government Response</u>

- Carry out on-site checks before a grant is paid, as well as after payment has been made.
- Require corrective action where non-compliance is identified.
- Have the ability to recoup grant payments where corrective action is not taken, or in cases of serious non-compliance.

#### Summary of responses

There were 92 responses to Q43 and 83 responses to Q44.

The most common risk respondents identified with the proposed grant model was that installers could put in poor quality, potentially undersized installations in order to increase profit margins. Respondents argued that a flat-rate grant incentivises this practice more than a grant which varies by capacity since the installation of smaller, cheaper systems means the installer takes home more profit. Another issue identified by respondents was that installers may push their prices up in response to the introduction of the scheme, negating the benefit of the grant. Many respondents thought requiring installers to be MCS certified would help mitigate against these practices, although it was frequently highlighted that a robust audit and compliance regime would have to be in place alongside this to ensure consumer protection.

When dealing with non-compliance, fraud, and gaming risks, respondents said the government should learn from the experience of past schemes like the Green Deal Home Improvement Fund and ensure vouchers were not claimed in bulk by large, well-organised companies from the start and then sold onto consumers.

Some respondents identified the risk of fraud on the scheme. For example, if a claim for a grant was made for installations that did not exist, or if a claim was made for multiple smaller systems at one property, rather than one appropriately sized larger system.

The risk to consumers of being mis-sold systems was frequently raised. It was suggested consumers could be sold a system with inflated performance estimates, resulting in dissatisfaction with the system and the consumer potentially removing it, damaging the reputation of the industry. The most common and most important suggestion to mitigate against mis-selling was the provision of information and education of consumers about renewable heating systems. Respondents also recognised installers may install systems in poorly insulated buildings, meaning customers could face higher than expected heating bills and end up removing the system or relying on their cheaper to use fossil fuel system.

A few respondents identified risks around phoenix companies that enter into the market purely to benefit from the scheme. It was suggested these companies create business plans that involve aggressive selling leading to rapid sales growth. These companies usually outsource poor quality installations then exit the market when their best profitability phase ends. Respondents were keen that the scheme administrator and MCS are quick to identify companies like this and ensure they cannot participate any further in the scheme.

In response to Q44, respondents were unified in the view that a robust audit and compliance regime must be in place to ensure installers are providing high-quality installs and abiding by the rules of the scheme. Respondents thought it important that the scheme administrator had the necessary powers to deter rogue installers from breaking scheme rules, for example, the real threat of an inspection, the ability to recoup grant payments or to exclude non-compliant installers until their practices improve. An equally important feature of an audit and compliance

regime, according to respondents, was the requirement for MCS to have a clear role that is complementary to the scheme administrator's role. They felt MCS should have a role in ensuring their standards for installers and products are being followed. Several respondents identified the value of a risk-based audit and compliance approach that rewarded compliant companies with a lighter touch.

Respondents also thought it would be important to provide simple information to grant recipients about their responsibilities. This was deemed especially important for biomass grant recipients so they are aware to use the correct fuel, where to source it from, and that their boilers should be being properly maintained.

#### **Government response**

We acknowledge the potential challenges of conducting audit and compliance activity on a grant-based scheme, as opposed to a subsidy scheme like the domestic RHI where ongoing payments provide a clear lever to address non-compliance. As a result, it is essential that audit and compliance checks on the Boiler Upgrade Scheme have a clear focus on the prevoucher issue stage and ahead of any grant payments. We want to ensure grants are paid only to high-quality installations.

Installers will be required to provide certain pieces of information at the point of voucher application to demonstrate scheme eligibility, ahead of a voucher being issued. For example, demonstrating that a biomass installation is located in a rural area. Following completion of works, installers will then need to provide further evidence at the point of voucher redemption, such as an MCS certificate. The scheme administrator will have powers to carry out on-site checks before a grant is paid to confirm eligibility of the installed system. We will work with MCS and the certification bodies to ensure that their own audit process complements that of the scheme administrator and that procedures are in place to resolve issues with supported installations.

While pre-voucher issue and redemption checks will be the focus for the mitigation of fraud and non-compliance, we also consider it important to have post grant payment powers in place as a backstop for situations where upfront checks are unable to pick up ineligibility.

We propose to provide powers to the scheme administrator to:

- Require corrective action where non-compliance is identified.
- Have the ability to revoke vouchers or recoup grant payments from installers where corrective action is not taken, or in cases of serious non-compliance.

These powers will be used to bring installers into compliance or recover money where appropriate following grant issuance. Further detail on the scope of audit activity will be set out in scheme regulations.

#### Next Steps

Ahead of scheme launch, the government will introduce regulations to deliver the Boiler Upgrade Scheme. We will work closely with the scheme administrator on the detailed design of the administration, digital solution, and scheme guidance to ensure it works for all users. This process will be informed by engagement with users.

This publication is available from: <u>https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat</u>

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