

## Great British Insulation Scheme (formerly Energy Company Obligation +)

<b>Lead department</b>	Department for Energy Security and Net Zero
<b>Summary of proposal</b>	The GB Insulation Scheme is an additional obligation on larger energy suppliers to deliver energy efficiency improvements to households. The scheme will last for three years from April 2023, running alongside the last three years of the existing ECO4 measure.
<b>Submission type</b>	Impact assessment (IA) – 4 April 2023
<b>Legislation type</b>	Secondary legislation
<b>Implementation date</b>	May 2023
<b>Policy stage</b>	Final
<b>RPC reference</b>	RPC-BEIS-5266(1)
<b>Opinion type</b>	Formal
<b>Date of issue</b>	2 May 2023

### RPC opinion

<b>Rating<sup>1</sup></b>	<b>RPC opinion</b>
<b>Fit for purpose</b>	The assessment of direct impacts on business and impacts on small and microbusinesses is sufficient. The EANDCB figure has been calculated in line with RPC guidance. The Department has provided a good overall cost benefit analysis and a strong monitoring and evaluation plan. There are some areas for significant improvement, in particular around assessment of impacts on private renters and assumptions about households and landlords meeting re-installation costs.

### Business impact target assessment

	Department assessment	RPC validated
<b>Classification</b>	Qualifying regulatory provision (IN)	Qualifying regulatory provision (IN)
<b>Equivalent annual net direct cost to business (EANDCB)</b>	£272.0 million	£272.0 million (2019 prices, 2020 pv)
<b>Business impact target (BIT) score</b>	£816.0 million	£816.0 million
<b>Business net present value</b>	-£380.2 million	
<b>Overall net present value</b>	£721.1 million	

<sup>1</sup> The RPC opinion rating is based only on the robustness of the EANDCB and quality of the SaMBA, as set out in the [Better Regulation Framework](#). RPC ratings are fit for purpose or not fit for purpose.

## RPC summary

<b>Category</b>	<b>Quality<sup>2</sup></b>	<b>RPC comments</b>
EANDCB	<b>Green</b>	The EANDCB figure is calculated consistently with previous ECO schemes, and in line with better regulation framework and RPC guidance. The figure is supported by an appropriate level of evidence and analysis.
Small and micro business assessment (SaMBA)	<b>Green</b>	Customer account and energy supply thresholds mean that no small or micro businesses are expected to be obligated under the scheme. Small and micro business installers will benefit from the scheme. The IA would benefit from considering impacts on medium-sized businesses.
Rationale and options	<b>Satisfactory</b>	The Department provides a proportionate discussion of the rationale for intervention, consistent with previous ECO-related IAs. The IA would benefit from further discussion and comparison with the regulatory options discarded following consultation.
Cost-benefit analysis	<b>Good</b>	The IA appears to use a proportionate level of evidence, including surveys, to support its analysis and has strengthened its evidence base following consultation. The IA includes a useful and well-presented sensitivity analysis. The IA would benefit generally from greater consideration of impacts on private renters and specifically from further discussion of the evidence around assumptions regarding households and landlords meeting re-installation costs.
Wider impacts	<b>Weak</b>	The IA includes useful analysis of distributional impacts, mainly by income group and region. The IA would benefit from discussing innovation, and supply chain impacts, further and from addressing proportionately, any competition and trade impacts.
Monitoring and evaluation plan	<b>Good</b>	The IA includes a comprehensive monitoring and evaluation plan, setting out likely evaluation questions, research methods and data sources.

<sup>2</sup> The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. Please find the definitions of the RPC quality ratings [here](#).

## Summary of proposal

The Energy Company Obligation (ECO) scheme was launched in 2013 and requires energy suppliers to deliver a target of notional annual bill savings by installing energy efficiency and heating measures to selected, or targeted, homes. The policy is intended to drive uptake of energy efficiency measures among low income and vulnerable households in, or at risk of, fuel poverty. The current ECO scheme (ECO4) was introduced in April 2022 and runs through to 31 March 2026. The proposal is for an additional ECO measure called ‘GB Insulation Scheme’ (‘the scheme’ - previously consulted on as ‘ECO+’) to run from spring 2023 to March 2026 alongside ECO4. The scheme obligates energy suppliers to improve the energy efficiency of EPC D-G properties across two eligibility groups, including a ‘low-income group’ (for example, households in receipt of means-tested benefits).

The proposal is estimated to cost around £940 million in present value terms, largely borne directly by energy suppliers. Over half of this cost is the capital expenditure of installing energy efficiency measures. Benefits are estimated at around £1.8 billion, mainly accounted for by reductions in carbon emissions and energy costs. Overall, the proposal is, therefore, estimated to have a net present value just under £0.9 billion (2022 prices, 2023 present value base year). The costs to business translate to an EANDCB of £272.0 million (2019 prices, 2020 present value base year), calculated over the three-year life of the scheme.

## EANDCB

The Department’s EANDCB figure is calculated consistently with previous ECO schemes and in line with RPC guidance. In accordance with the better regulation framework treatment of measures in force for less than five years, the BIT score is the EANDCB figure multiplied by the lifetime of the measure, in this case three years. The BIT score is in addition to that already scored for ECO4 during the current parliament.<sup>3</sup>

### Counterfactual/baseline

The counterfactual for this proposal includes the current ECO4 scheme. It also allows for 20 per cent of households in the ‘general group’ installing measures at some point without the scheme, informed by survey evidence. The IA does a sensitivity test on this in relation to the NPV analysis; the IA would benefit from discussing this in relation to the cost to business.

### Missing impact(s)

The IA notes that its modelling is not able to cover homes permitted under ‘in-fill’, for example where a block of flats or street includes mixed tenure occupants (page 31). The IA notes that the impacts of this are not expected to be large but would benefit from further discussion of the significance of this.

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<sup>3</sup> <https://www.gov.uk/government/publications/the-electricity-and-gas-energy-company-obligation-amendment-order-2022-rpc-opinion>

See also comments under 'cost-benefit analysis' below.

## SaMBA

The IA explains that the customer account and energy supply thresholds mean that no small or micro businesses are expected to be obligated under the scheme. The Department reports that previous analysis indicated that suppliers just above the customer account threshold have, on average, around 120 employees. The Department notes that some small and micro businesses in the supply chain may benefit indirectly from increased supplier demand for their services.

### *Medium-sized businesses considerations*

Given the Department's analysis referred to above, the IA would benefit from consideration of impacts on medium-sized businesses, in line with the Government's widening, to businesses with fewer than 500 employees, presumed exemptions on regulation.

## Rationale and options

As this is the latest in a number of ECO-related schemes, the description of the rationale for intervention, drawing upon market failure considerations, is proportionate. The IA would benefit, however, from further discussion of why an additional ECO scheme, running alongside the main ECO4 scheme introduced only a year ago, is required at this stage. The IA would benefit from providing an overview of what has been delivered under the ECO schemes since they began in 2013, lessons learned and an overall assessment of how successful they have been in achieving the policy objectives. The IA would also benefit from some wider context of how far the figures (300,000 additional homes a year over three years) addresses the proportion of houses estimated to need some form of energy efficiency improvement work.

The IA lists different policy design options that were considered at the consultation stage and that the Government's response to consultation sets out its final position (page 7). The IA would benefit from describing more clearly the overall options presented at the consultation stage and summarising the basis for the option selection at the final stage. In doing so, the IA would benefit from summarising the comparative costs and benefit estimates across the options.

## Cost-benefit analysis

### Evidence and data

The IA appears to use a proportionate level of evidence for a relatively high impact measure, such as carrying out a survey of installers to provide estimates of the typical/average costs of insulating different types of properties. The IA also appears to make good use of consultation, for example in gaining stakeholder confirmation of administration cost estimates. The analysis also appears to have been strengthened

in other places following consultation, for example development of new cost models for underfloor insulation. The IA would benefit from providing, as for the ECO4 IA, a summary table of improvements to the evidence base and analysis following the consultation.

The IA would benefit significantly from much more consideration of private sector renters and the impact of the scheme in addressing this proportion of stock of housing. For example, while the IA refers to a Social Market Foundation poll on contributions that homeowners would be prepared to make, the same poll found that 60 per cent of landlords would be unwilling to pay more than £250 towards improving energy efficiency of rental properties. The IA would benefit significantly from providing more evidence related to private sector rentals and from discussing how to incentivise landlords, in order to achieve the objectives of policy. The IA could consider direct evidence on the impact of improvements on the rental and sale values of affected properties.

The IA notes that the IA's incorporation of higher unit cost estimates, following consultation, has resulted in a significant fall in the estimated number of homes treated through the scheme. This appears to be reflected in reduced benefit and NPV estimates but the IA would benefit from discussing further how estimates have changed since the consultation stage.

### Methodology

As with previous ECO IAs, suppliers' possible actions under the proposal are modelled using the National Household Model (NHM). The RPC understands that the NHM model is based on the large-scale English Housing Survey. The ECO4 IA included a fairly detailed explanation of this model; the present IA would benefit from a summary of the model or reference to where a description of the model can be found.

The IA notes that the figures for Scotland and Wales should be treated with caution as the modelling is based on English housing data only and is scaled-up to Great Britain. The IA would benefit from exploring whether there are data from the earlier ECO schemes to support the implicit assumption that housing data for England is representative of Scotland and Wales. The same point should also be addressed in relation to fuel poverty figures.

### Assumptions

The IA has a good section (pages 28-32) on 'risks and uncertainties', which includes sensitivity analysis on key assumptions. This would benefit from including sensitivity modelling of the 44-year appraisal period. This would recognise the likely lower life length of other measures, particularly in relation to heating systems and loft insulation (which might last around only 15 to 20 years). It may also be the case that some of the properties themselves will have an economic life of less than 44 years. The IA could also address why the appraisal period is slightly shorter than that for ECO4.

The IA would benefit from discussing whether there have been post-implementation reviews or other checks on the accuracy or appropriateness of previous ECO IAs and their assumptions.

The IA would also benefit from a discussion of the difficulties associated with lack of a consistent methodology for measuring energy performance of a building over its life cycle that would assist in targeting measures.

The IA assumes that households would meet the cost of re-installing energy efficiency measures once they reach the end of their life and the assessment would benefit significantly from justifying further the inclusion of the impacts of re-installation in the analysis (given that it is not a requirement of the proposal), and discussing the realism of the assumption that households will meet re-installation costs, addressing affordability issues for lower income households. The IA would benefit from providing sensitivity analysis on the impact on costs and benefits if households do not re-install energy efficiency measures.

## **Wider impacts**

The IA mentions briefly “innovation measures” but would benefit from a broader discussion of the role of the proposal in innovation and, proportionately, other wider potential wider impacts, such as competition and trade.

The IA helpfully includes analysis on low-income groups, including producing ‘equity-weighted NPVs’. The IA would benefit from discussing impacts on energy consumers, including those with low incomes, more generally. This could include the pass-through of costs incurred by energy suppliers to domestic customers, including the approximate size of the estimated increase in household fuel bills. The IA could also explain further how Ofgem incorporates this into its default tariff cap, and discuss how this pass-through could make energy suppliers less intent on minimising the costs of implementing the measures. The IA could also explain further how the impact on household bills interacts with the Government’s Energy Price Guarantee in 2023/24. The consideration of distributional impacts by income could also discuss further the relatively high representation of owner-occupied homes under the scheme (paragraph 59, page 20), linking to the need to consider further the impacts of the scheme on private sector renters, referred to above.

The IA discusses briefly supply-chain risks (page 32) but would benefit from discussing this area further, such as availability of skilled labour or importing of products, which might affect the delivery or cost of the proposal. This could include interactions with regional/rural issues, such as whether there could be supply issues for remote rural communities/islands in Scotland.

The IA provides a regional breakdown of homes treated under the proposal (table 16, page 26). This shows that London, in particular, has a comparatively low proportion of homes treated, whilst the South East, South West and North West have a relatively high proportion. The IA would benefit from discussing how the regional

distribution compares with ECO's objective of targeting fuel poverty where most needed and the Government's broader 'levelling up' agenda.

## Monitoring and evaluation plan

The IA includes very good, and detailed, sections on monitoring and evaluation plans (pages 32-34 and annex C). This sets out a theory of change, likely evaluation questions, research methods and data sources. The IA describes how its plans are informed by learning from evaluation of previous ECO schemes. The plan discusses the evaluation of both the scheme and ECO4 but would benefit from further addressing how the specific impact of the scheme will be differentiated from that of ECO4. The M&E plan should also consider the wider context of effectiveness of the scheme in reducing overall number of houses that need some form of energy efficiency improvement.

## Other Comments

The IA would benefit from summarising some of the key features of, and definitions in, the ECO schemes. These include how notional annual bill savings are computed and how they relate to recent fuel prices; how targeted homes are selected; how fuel poverty is defined, including how they relate to the Low Income Low Energy Efficiency indicator; how the obligation on energy suppliers relates to the contractual relation of suppliers to their customers and what happens when customers switch or energy suppliers cease trading; and how energy costs are estimated and updated to reflect movements in price.

## Regulatory Policy Committee

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