

Do you agree that the ECO4 Order should be amended to specify which government grants cannot be used to fund measures?

No.

National Energy Action understands that deviations from expected spend is not consistent across all suppliers. All suppliers have overspent and exceeded their budgets. Some companies have been able to keep much closer to expected costs, while others have overspent to a greater extent. The reality that significant overspending is not a sector-wide problem highlights that the issue can be at least partially explained by inefficiency, rather than being a true reflection of real costs.

Moreover, overspending cannot be explained by greater delivery, nor can it be considered a natural consequence of delivering more. According to Ofgem's latest data, in general, suppliers have made good progress in delivering their Home Heating Cost Reduction Obligation. Our understanding is that the most efficient suppliers have delivered more support.

Additionally, many suppliers initially approached ECO4 delivery with a basic set of pricing strategies. In practice, most offered a single rate per Annual Bill Savings (ABS) for solid wall properties. They later discovered that most of their obligation fell on large, inefficient solid wall homes in EPC bands E, F, and G, since lead generators tended to target the biggest properties. This meant that suppliers' obligations under ECO4 were skewed towards big properties with poor efficiency, which are much more costly to upgrade. However, some suppliers adjusted prices according to property size and were able to be more efficient.

Furthermore, whilst consistently reporting to government that search costs were very high under the scheme, suppliers seemed to make very little attempt to reduce them and relied almost completely on lead generators and installers to identify eligible households. Meanwhile, suppliers held lists of their own Warm Home Discount customers and were receiving growing number of customers contacting them from households struggling to pay their bills. Considering the scale and technological capacity of many of these businesses, the concerns raised about the costs of reaching households could have been accompanied by more proactive measures to explore cost-reduction opportunities.

This highlights that the overspend stemmed from inefficiencies in pricing strategies and in continuing to operate how they had done previously rather than just from forecast errors.

As a result, the ECO4 order shouldn't be amended because the government should not subsidise issues that have resulted from inefficient processes by suppliers. Suppliers should not be 'rewarded' nor compensated for their inefficient processes.

The delivery of ECO4 has produced poor outcomes for some households where installs have been poor quality, specifically with external wall insulation, as highlighted by the NAO report. Instead of providing these fuel poor households with warm, safe and healthy homes through necessary energy efficient home improvements, ECO4 left them in need of remedial work, and unable to reap the benefits of more energy efficient homes. As a result, households continue to suffer the effects of fuel poverty and health problems from damp and mould caused by poorly installed measures. Through our experience as a fuel poverty charity, we know the extent of the

physical and mental harm this creates that the failure of ECO4 has unfairly prolonged and worsened for many.

Accordingly, the provision of further subsidies to suppliers under this scheme, in cases to pay for what has now been found to be failed retrofit, is unjustified and would be widely regarded as unacceptable, particularly given the ongoing uncertainty faced by households awaiting remedial work. Many affected households are not only deprived of the benefits of energy-efficient homes but are suffering from new issues from faulty installation, with unsure timelines of when these issues will be resolved. Subsidies are intended to reflect and encourage good practice and deliver positive results, not to reward bad outcomes.

If UK Government do intend to provide additional funding to suppliers for ECO4 overspend, it is essential that any additional recovery of costs from suppliers is not taken from the Warm Homes Plan budget. The Autumn Budget has already confirmed that ECO will not be renewed beyond its current iteration, leaving a £6.4 billion shortfall in funding for energy efficiency measures in fuel-poor homes. Even with the £1.5 billion allocation to address fuel poverty, this still represents a 25% reduction in the total Warm Homes budget.

Our workings suggests that this funding cut could result in a loss of £670 million in total bill savings and prevent upgrades to more than 300,000 homes. Any further reduction would severely limit the ability of fuel-poor households to improve their homes, benefit from warmer living conditions, and lower energy bills. Such cuts would deepen the challenge of tackling fuel poverty, leaving more households exposed to its effects. Moreover, it would push the government further away from meeting its legally binding fuel poverty and carbon reduction targets. For these reasons, the Warm Homes Plan must not be reduced any further to fund the cost recovery for inefficient suppliers, as fuel poor households should not be penalised further.