

## **Scottish Rural Fuel Poverty Task Force Issues around PAS2030 and ECO compliance**

### **1. Issues**

- Achieving accreditation for PAS2030 is a lengthy, complicated and expensive business that smaller local contractors will struggle to achieve
- The training required can be difficult to access, it takes time away from core business activities and costs are high
- The annual fee is prohibitive if the amount of work available each year is not sufficient to justify the costs. It is more difficult to find the volume of work in rural areas in order to justify the costs involved
- The administration and back-office functions required for PAS2030 and the ECO process is huge and is totally unwieldy for small contractors – one installer who accesses ECO has 55 employees, 20 of which are administrative staff dealing with ECO; an average for a similar company not securing ECO would be three administrative staff
- PAS2030 accreditation is required for each measure / system, so costs increase for contractors who wish to offer multiple measures and this can limit the flexibility and adaptability of small contractors to bid for a variety of contracts. In rural areas, limited markets mean that small businesses need to be diverse and flexible in order to service a range of clients / markets – specialising is less likely to lead to a successful business model
- The administrative processes required in order to comply with regulations at all times is complex and unwieldy – so for example, notification of certification of all tradesmen on-site is required prior to work starting but the team involved may not be confirmed until the last minute
- The ECO claim process is time limited and requires sign-off of a huge amount of paperwork at different stages of the installation. Any delays, such as dealing with snagging lists or issues raised by the customer, delays sign-offs and affects the ability of the installer to submit ECO claims in time. If a customer is late in returning signed paperwork or is difficult to get hold of then the contractor is unable to submit an ECO claim for the measure
- The ECO claims process involves submission of sequences of documents that should be dated in the correct timeline – any errors will result in loss of ECO. The level of organisation and tracking involved is prohibitive for smaller companies
- The risk of rejection of ECO claims is high and the quality level of claims/evidence submitted is expected at 100%. Even where the error may be due to the ECO provider / Utility Company or their interpretation of the Ofgem regulations, an installer's claims can be rejected
- Information gathering of on-site works is more difficult in rural areas. For example, the process requires photographs to be taken at different stages of the installation process and if these are not made available then the ECO claim may not be paid. The fragmented settlement patterns in rural areas mean that ongoing jobs may be scattered across a large area, which are much more difficult for a Clerk of Works or similar to get across to take photographs at the required times.

Smaller to medium sized contractors may rely on site based staff to take these photographs, which may not happen

- The technical monitoring programmes required for ECO claims are more difficult to organise in rural areas. ECO providers like to have completed and current jobs concentrated within a relatively small area for their contracted surveyors to undertake the monitoring assessments. Achieving the range of available monitoring jobs in suitable areas can lead to delays in monitoring activity and hence the rest of the reporting / claim process
- A minimum of 5% of jobs, for certain measures, require mid stage technical monitoring at the expense of the ECO claimer (e.g. the installer or HEEPSABS scheme manager). This increases where more than one contractor is involved in installing the same measure (5% of jobs must be monitored for each) and again if different ECO funding streams are used (CSCO & CERO) – as these must be claimed separately. Therefore, unless you are a large company installing say, 100 measures per claim, all by the same contractor and claiming on the same funding stream, the required 5% can easily increase to at least 70%.
- The insecurity of ECO contracts means that installations can be completed in good faith with costs incurred up-front but contractors are not paid the ECO funds expected. Even if contracts are honoured overall, it is possible for some works to be disallowed due to minor technical (administrative) reasons, leaving contractors to cover the costs themselves. It is not possible for small companies to absorb these costs
- The levels of paperwork and the complexity of the claims processes for ECO keep increasing, with requirements for higher levels of supporting evidence being introduced. More onerous processes are often introduced after signing contracts, which the installer has no option but to comply with, otherwise payment will be with-held and further contracts will not be forthcoming. The ECO contract risk is pushed entirely to the small contractor and the ECO provider / utility company (effectively) reduces its exposure. This is very difficult for small contractors to engage with, because even one or two EWI jobs unpaid can seriously impact on cash flow and viability of scheme delivery
- Utility Companies / ECO providers are able to demand credit notes for historic work that has already gone through their rigorous checking process (and has been completed, approved and paid) for example on 18 month- old claims. By the time Ofgem have closed off the job, the installer has no means of recourse and has to suffer a loss.
- ECO rates have fluctuated vastly over the last couple of years and have dropped by a huge amount - this has led to funding shortfalls in jobs and smaller companies are unable to cope with this. Because the obligation is on a private company to reduce carbon emissions, the ECO providers will always try to get best value per carbon ton, which has resulted, over the last two ECO years, in rates being reduced to a 1/5<sup>th</sup> of the original rates. Also, the ECO providers react by reducing their rates even further when they see any other funding streams being increased. A reduction in ECO rates may result in higher customer contributions and therefore client drop out
- Maximum and minimum caps have been introduced by ECO funders on measures, which means that installers or HEEPSABS managers are unable to claim the measure (at all) if the Carbon saving falls below a lower limit or exceeds an upper limit i.e. below 5T and over 100T (caps differ from measure to measure). This adversely affects households who are most in need, particularly

where upper limits are exceeded, for example in a property that started with little or no insulation and a very poor SAP rating

- Integrating HEEPSABS with ECO has been a considerable challenge, when the Area Based Scheme is focusing on achieving the agreed number of installs (and maximising these) whereas ECO focuses on carbon tonnes. The HEEPSABS programme has to be agreed ahead of the programme starting but ECO contracts are short term – so that measures and numbers are uncertain until contracts are agreed with the ECO providers
- The complexity of eligibility - both for HEEPSABS and ECO streams – creates real confusion on the ground in rural areas. The SIMD proxy does not fit well with the purpose of identifying fuel poor households. The rationale for the lowest 25% data zones does not fit in the remote rural areas where there is virtually no difference between these and the other 'rural' zones (i.e. under 10,000 settlements) – due to the heterogeneity of the population, where rich people live alongside the very poor.
- Eligibility of measures under ECO funding streams is far too complex and creates barriers to installation of required measures. For example, if a property requires underfloor insulation but has no "Primary Measure" we cannot offer this under CERO as it is classed as a "Secondary Measure". But under CSCO, underfloor insulation is classed as a "Primary Measure", which needs no further measure before we can install. Therefore, if you have no primary measure or available CSCO tonnage then the customer's underfloor cannot be installed or claimed.

## **2. Analysis of the root cause of the issue**

ECO, and the PAS2030 process that underpins its delivery, involve extremely complicated and costly processes that require high inputs on the part of the contractors involved, particularly of administrative processes. Local tradesmen in rural areas lack the scale of business required in order to cope with the costs and other resource implications. Energy efficiency work that involves an ECO contribution in rural areas tends to be delivered by companies from outwith the area who are not embedded in the community and who take the majority of their profit out of the area.

The constant changes around ECO and the risks involved, place limitations on the scale of company that can accept the burden of entering an ECO contract and this presents an obstacle to small local tradesmen in rural areas.

The complexity of the ECO process, as well as PAS2030, place too much emphasis on administration and far less emphasis on verification of quality of work on the ground and of the practical value of a measure to a dwelling, in terms of improving thermal comfort and combatting fuel poverty.

The high costs involved with ECO compliance and the low ECO rates that are available, mean that in many cases, it would be more cost effective to plan installation programmes without any ECO at all, which would enable lower installation costs due to reduced administration.

### **3. Evidence**

A huge body of evidence exists from the experiences of insulation installers – reference the NIA for details.

### **4. Possible Current solutions**

Providing support to local companies to work together as co-operatives, with a lead or core body that accredits to PAS2030 and organises / co-ordinates the administration. Different members could accredit for different measures / systems and collaborate on contracts.

Enable HEEPSABS to be delivered without securing ECO, thus allowing install costs to reduce.

### **5. Possible Future Solutions**

The problem is that the current system relies heavily on the paper trail but there are insufficient checks and balances on the ground in order to ensure that the paperwork actually reflects the true picture. The administrative process is far too unwieldy and complicated yet it doesn't weed out any "rogue" contractors or poor practices.

A new system could be introduced that has a simplified administrative process; that requires the usual trade certifications and standards but doesn't require any further accreditation. Instead, it should involve intensive, practical, on the ground monitoring of works in-progress and completed.