



## **InstaGroup response to Ofgem consultation on requirements for demonstrating characteristics of hard-to-treat cavities**

### **Energy Companies Obligation (ECO)**

**Dated: 20<sup>th</sup> September 2013**

#### **Introduction**

This document details InstaGroup's response to the Ofgem consultation document detailing proposed requirements for demonstrating characteristics of hard-to-treat under ECO. Alongside our position as a Green Deal Provider, leading system designer and founder members of CIGA & SWIGA, InstaGroup manages the Snug Network, a consortium of over 100 small to medium sized businesses. Together they represent the largest network of insulation contractors across the UK. The response enclosed is that of InstaGroup however we have sought input from our individual Snug Network members and their views have been taken into account throughout this response. Indeed to support this document we have enclosed a summary of a questionnaire put forward to our network which captures the impact these proposals will have on the insulation industry.

InstaGroup has been broadly supportive of the recent changes moving from CERT/CESP into ECO & Green Deal and have always tried to embrace these changes in a positive way as opposed to resisting change. Our involvement in CIGA, SWIGA and the Green Deal Finance Company demonstrates our firm belief that, in the long term, ECO & Green Deal has the potential to help transform the UK's housing stock. This is a view that is shared by many of our network who believe ECO & Green Deal can deliver substantial improvements to UK buildings over the next 10 years. To this end our responses and engagement with recent consultation documents has very much been focussed around a 'can do' attitude and attempting to work with government and Ofgem to enable existing legislation to work for the benefit of all parties.

#### **Executive Summary**

This consultation and the proposals within are extremely concerning and we believe this has the capability to undo all the positive work which has been ongoing in the area of hard to treat since the beginning of 2013 alongside increasing the cost and complexity of dealing with such insulation measures. We acknowledge the concerns that Ofgem has encountered with the limited sample of Hard-To-Treat-Cavity (HTTC) installations monitored to date, but believe a more measured approach is warranted before moving to these drastic and damaging solutions proposed in Ofgem's consultation. Furthermore, we would point out that the Ofgem guidance was initially issued in November 2012 with the final copy published in March 2013. In July 2013 further revisions were

introduced in respect of narrow cavities to record the section of wall of the sub-50mm section confirming the measurement should be made face to face. This clearly demonstrates the significant uncertainty which around hard to treat cavities and the evidential requirements.

The first issue raised by Ofgem is that from an examination of the paperwork submitted for narrow HTTC, 68% of measures were deemed to be incorrect. In Insta Group's view this clearly signals that the expectations of what is required by Ofgem and what the insulation industry believes is to be submitted, are diverging rather than converging. To us, this signals the urgent need for the insulation industry and Ofgem to sit down and clearly ensure that everything is unambiguous and easy to understand for the insulation industry. We would also add that Ofgem's concerns over incomplete information being recorded is probably linked to this same point.

These proposals have also come without warning and importantly without any input from industry such as representatives with CIGA & NIA which we find an unacceptable approach considering the magnitude of these proposals. As a result we would strongly urge Ofgem to reconsider these proposals. Furthermore, InstaGroup has committed to considerable CERO contracts through various sources including brokerage which contain penalties for non-delivery. Given the undoubted impact these changes would have on our ability to deliver these contracts and subsequent penalties InstaGroup would have to consider legal action if such changes do come into force.

Our overlying view is that these proposals will impose even greater regulations and processes into an industry which already consists of many complex requirements at a time when the insulation industry begins to see signs of recovery.

Our response touches upon a range of issues including cost implications, logistics and relevant industry capacity. The result of introducing these changes will significantly reduce the levels of hard to treat cavity wall insulation levels at a time the industry can ill afford to see another drop off in activity. In order to illustrate the severity of the proposed measures we issued a questionnaire to our network (comprising of over 100 SME's) aimed at measuring the views of our members, the questions for which are documented within '**Appendix B**' at the back for this document. A summary of results from this can be seen in '**Appendix 1**' (separate excel document submitted alongside this response) clearly show the magnitude of the proposed changes with **70** responses in total with (**90** %) indicating they may even decide to exit from the hard to treat market altogether.

## **100% verification of narrow HTTC measures**

InstaGroup already operates a robust set of processes in respect of narrow cavity wall installations and as such we are not aware of any major issues which have been identified through audits and technical monitoring across our network's activity. The change in approach to narrow cavities being proposed by Ofgem represent significant challenges both in respect of cost, logistics and industry capacity, we would urge Ofgem to not under-estimate the implication of these changes and the negative impact this will have on the industry's capability to deliver. These issues are outlined below in further detail.

The proposal suggests that the verification of a narrow cavity must be carried out by an independent assessor who is of 'appropriate skill and experience'. The standard set to achieve this (e.g. – what is appropriate skill and experience) is unclear and such clarity has a direct impact on the feasibility and practicalities around implementing this change. Whatever this standard may be there are a number of issues associated with this widespread approach and in our opinion these are disproportionate to the problems Ofgem are seeking to address. The volume of hard to treat cavity wall installations indicated within the impact assessment and required to meet government targets is significant therefore Ofgem has a responsibility to establish the correct balance between compliance and enabling the market to deliver these volumes. This verification proposal essentially will add in an additional site visit which will principally create the following key issues:

### **1. Timescale and capacity issues**

A high proportion of 'appropriately skilled' workers for hard to treat cavity walls are employed by the installer in order to gain a degree of control over their work flow. Mandating these assessors to be independent of the supply chain removes their ability to technically assess their own work even though their skill set and experience meets the standard. In our view the infrastructure and capacity to deliver this in the short term through independent assessors does not exist to allow the industry, at time when volumes are just beginning to increase, to continue at existing levels. At a time when the insulation industry is beginning to find its feet under ECO and confidence beginning to return as volumes increasing this change will undoubtedly set back this momentum. It will take some time for the industry to establish a large enough network of suitably qualified assessors, who are independent of the supply chain. Furthermore, there has already been a significant amount of changes to legislation surrounding Green Deal & ECO which, in turn, has led to large scale investment in a number of areas such as training and accreditation. These changes have had a direct impact on small to medium sized businesses in particular with investment coming at a time where installation volumes have dropped dramatically. Our opinion is that adding yet more costs and unjustifiable processes will make this problem worse and ultimately damage the ability for SME's to make a return on their investment.

Finally, in respect of timescales we would urge Ofgem to reconsider the proposed date of 1<sup>st</sup> October. When this consultation document was issued many of our supply chain were generating October work given the gradual upturn in work. Imposing these timelines from 1<sup>st</sup> October would cause serious issues, confusion and potentially leave contractors with work they are unable to submit.

### **2. Householder disruption & drop out**

The existing process under ECO requires two surveys before works can be programmed for installation. This being an EPC, carried out by a DEA/GDA, and a technical survey which currently includes the verification of the narrow cavity. These changes, unless carried out at install, will require the introduction of a third home visit for the customer before measures can be installed. Disruption to the householder, including their ability to be present at the time of survey, represents a significant challenge and our concern is that we feel sure this will result in additional customer drop out due to these issues. The logistics of including this verification stage at installation, whilst possible, also represents significant issues implementing this at scale. This includes the cost implications associated with missed/delayed appointments

### **3. Cost implications**

The cost implications of this new proposal are significant. As Ofgem is aware, the current levels of bureaucracy in ECO at all parts of the supply chain are already at breaking point and we are pleased to see that Ofgem and DECC are engaging with industry to reduce this to a more sensible level. However, the current consultation proposes changes that would add substantial additional bureaucracy that is completely unnecessary and disproportionate. These changes would add substantial costs to each part of the supply chain, delivering absolutely no benefit to anyone, least of all the consumer. We are already concerned that the cost of compliance in ECO is too high and this proposal would result in a further shift in the proportion of ECO funds being spent on compliance rather than on actual energy efficiency measures. Bearing in mind DECC's own figures support the fact that the majority of unfilled cavities remaining are hard-to-treat, we see no reason for this costly additional mechanism to be introduced.

We also consider that the additional costs of the proposed change would undermine the need for ECO to be delivered as cost effectively as possible to the consumer. InstaGroup is firmly of the view that there are simpler and more cost effective ways for Ofgem to ensure that ECO is delivered in a compliant manner. The most obvious is to support the existing control, monitoring and enforcement mechanisms that already exist within the Green Deal and ECO framework. This framework has only recently been introduced by the Government and InstaGroup consider that Ofgem should focus on ensuring ECO works within the confines of this framework which is considered by all to be extremely robust across all areas of operation.

The cost implications surround both the additional surveying cost and the cost of administering this process on the scale required to deliver. Equally concerning and difficult to quantify in terms of costs is the likely bottle neck and subsequent slow down for works whilst coordinating an independent inspection from an appropriately skilled person. InstaGroup believe the cost of these measures are already high due to existing compliance and ECO rules, these changes not only have a direct impact on the supplier deliver costs but they also risk creating an uneconomical measure which is required to deliver governments CO2 targets.

## **Increased requirements on HTTC measures that require a chartered surveyors report**

The first section of this proposal, relating to the report itself, is acceptable in InstaGroup's opinion and would support these changes. For the avoidance of doubt this statement relates only to the following two points within the consultation document:

- Chartered Surveyors Report must be dated before the installation date
- Must be prepared using the Ofgem chartered surveyors report template.

In respect of the section relating to the chartered surveyor who writes the report InstaGroup have serious concerns over the particular element which proposes that the chartered surveyor **must personally assess the site on which s/he is reporting**, these are outlined below. We also do not agree that this person(s) should be independent of the supply chain and would ask Ofgem to reconsider this approach. In order to ensure certain hard to treat cavity walls are verified as such, Ofgem's existing guidance already stipulates a chartered surveyors report is required. This standard which has been set already represents exceptionally well qualified people which already adds additional costs to the programme. The regulators have chosen perhaps the most highly skilled people to conduct these reports, when taking into account their qualifications, reputation and RICS accreditation it is unjustified to place little or no trust in such reports on current processes. We believe the fact that a Chartered Surveyors Report is required already represents adequate verification of hard to treat cavities and the proposed changes represent a disproportionate change to the guidance. It should also be noted that any professional such as a chartered surveyor is independent irrespective of the source of instruction and their qualifications and reputation are at stake with each CSR written. By virtue of this the chartered surveyor already must satisfy themselves with information presented and will not change their opinion simply to please their client. Organisations should also not be forced to seek external chartered surveyor's reports; this will add significant costs for many insulation installers together with potential capacity issues.

InstaGroup has already spent considerable time establishing a robust and efficient process to enable such chartered surveyors reports to be completed in a compliant way. The proposal that the chartered surveyor must visit the property in person has serious consequences for our network. These are outlined below:

### **1. Capacity, availability and logistics to meet demand**

Firstly, the volume of hard to treat cavity walls installation required by government to meet CERO obligations are extremely challenging and should be taken into account when considering this proposed change. It is, in our opinion, Ofgem's responsibility to establish the right balance between robust compliance and enabling the market to operate with an acceptable level of control. It is our strong view that this proposal will have a catastrophic impact on the volume of hard to treat cavities at a time when the industry is now beginning to establish working processes. This can be mirrored by activity in Green Deal where complexity and cost implications have been a major contributor to the slow start in 2013.

The early discussions InstaGroup has held with our partnering chartered Surveying company is that the capacity and industry skill level to fulfil this proposal simply does not exist. Although over time this capability could be established this may take a considerable amount of time and more importantly it would add disproportionate additional costs onto such works. In order to carry out these reports under ECO you require a chartered surveyor with the correct background in addition to providing additional training to enable them to operate within the industry guidelines, this would include boroscopying etc. We would encourage Ofgem to seriously consider that this skill set does not exist on a large scale at present and would take time for such a framework to develop in order to keep pace with demand. The result in the short-medium term will be a dramatic drop off in hard to treat volumes.

The logistics of implementing such a change on a national basis gives us serious concerns over the practicalities. Firstly, this will involve a further customer site visit which may require the customer to be present. Given this will be following an EPC and installer technical visit this represents customer disruption and logistical issues around ensuring customers being present. As mentioned within the previous section, the practicalities of arranging multiple customer visits is extremely challenging and should not be under-estimated by Ofgem. Failed and broken appointments due to customers not being present will add to the costs of a highly skilled person having to travel, in some instances, many miles to complete such a report.

## **2. Additional and disproportionate cost**

The need for a Chartered Surveyors Report under existing regulation already adds additional cost to these measures. However we accept this is required at least in the short-medium term. The cost implications of mandating the chartered surveyor to personally visit and assess the site is extremely worrying and would urge Ofgem to consider this very carefully before implementing such a major change. Perhaps even more concerning is the organisations to whom we currently contract with predict that they would prefer, based on these Ofgem proposals, to stop completing ECO work and apply their skills and expertise to another part of the building industry. This is mainly due to the associated hassle factor and considering their skills and qualifications would struggle to convince such professionals to spend considerable time in a vehicle. Whilst we accept this is not necessarily representative of all chartered surveyors, it does raise concerns over the market price for such reports given the likely shortage of supply to the market. This additional cost will add significant costs onto the delivery of the ECO obligation and importantly energy bill payers, we also believe that such costs are disproportionate to the likely remedial costs in the first instance. Ofgem should not allow a situation where the cost of verification consistently exceeds the cost of the remedial work.

## **3. Timescales of proposal**

Given the points raised above we have serious concerns over both the proposal itself together with the timescales being indicated. What is being proposed represents a massive change to the industries and associated working processes something which simply cannot be set up and operational by 1<sup>st</sup> October. Whilst we strongly advice Ofgem to reconsider the proposal in general terms, we would also ask that should they decide to follow through with such changes then some realism in factored into the timescales. InstaGroup are very happy to engage with Ofgem and other industry members to ensure that any ambiguous and existing guidance can be cleared up to ensure ongoing compliance can be fully met. Importantly we would ask Ofgem what, if any, engagement

has been carried out with RICS to establish the actual potential to carry out such works on the required scale. InstaGroup would be extremely disappointed if this has not occurred and would therefore question the substance and viability of the proposals being presented. When considering the lead time of cavity wall insulation where the existing CSR requirements take place bringing this into force on 1<sup>st</sup> October essentially means these rule will affect work being done throughout September and this has already caused many of our network to scale back activity for fear of being unable to submit works.

Bearing in mind that Ofgem only issued finalised guidance on technical monitoring in July 2013 and the fact that little or no technical monitoring of CERO activity has taken place yet, InstaGroup consider it far too early for anyone to make an informed decision on whether the existing arrangements were dealing with non-compliance. InstaGroup strongly recommends that Ofgem allow Energy Suppliers and Green Deal Providers be given time to allow the existing arrangements to properly bed in before taking any decision to impose new monitoring arrangements for any aspect of ECO activity.

InstaGroup has consulted the chartered surveyor organisation being used at present, for completeness we would like to share their thoughts within this response. Their comments are included in **Appendix A** at the rear of this document and are extremely concerning to InstaGroup on a number of different points, primarily being:

1. Their likely exit from the market leaving us little time to procure and set up alternatives
2. Cost implications
3. Practicalities and capacity to deliver resulting in a large drop off in volumes

Our suggestion would be to utilise the proposed 'ECO assessor' training initiative developed by RICS and NIA as a replacement for the need for site visits. As an alternative Ofgem could look to instigate a sample site assessment requirement of 5%. This would place a requirement on all obligated parties and providers to ensure that at least 5% of these hard to treat measures were subject to a site visit by a chartered surveyor. Both of these options represent a much more feasible, deliverable and proportional solution to the one set out within Ofgem's consultation.

## **Increased technical monitoring**

InstaGroup feel that this increased scrutiny and monitoring requirements are justifiable but only where an organisation has failed to meet the required standards and compliance levels as detailed within the existing supplier guidance. It is fully appreciated that Ofgem has a responsibility to ensure compliance and take action where this is not being met however these additional monitoring requirements are not appropriate where organisations have been implementing the existing guidance correctly.

Indeed Ofgem already has clearly detailed Level 1,2 & 3 technical monitoring (section 13) in which paragraphs 13.29 - 13.39 inclusive detail consequences of high failure rates. Given this guidance was intended to deal with such non-conformity InstaGroup are extremely disappointed that rather than executing powers and protocol within the existing guidance this proposal appears to be one of industry distrust and working on an assumption that all organisations have submitted widespread non-compliant measures.

The practicalities of implementing further mid-installation checks is concerning, particularly, for narrow cavities when post inspections are still possible.



## Appendix A

### Supporting notes from InstaGroup's chartered surveyor organisation partner

1. If the proposals are bought in, in their entirety, we would probably have to withdraw because we could not immediately offer the resources required to undertake a meaningful amount of work
2. In order to make the scheme remotely economical a surveyor would need to operate within an hour's travel from base. Unfortunately we are not within an hour of many of your sites
3. Without additional resources I doubt we would actually undertake more than 6-8 per week, because to do so would impact too heavily on our other work streams. Obviously, if there was security of income and time to reorganise and recruit, we could scale up but max output/surveyor/week is probably 20 before you discount for failed appointments, sickness holidays etc etc

As you are aware we also undertake CSRs for recommended measures including CWI, EWI and loft top up and it seems we could continue to do this work as we are at present. This work would obviously remain attractive.

#### Consultation Letter Notes

- I have always been working under an expectation of future audit, and it would be negligent of Ofgem not to intensify the audit process if there was reasonable doubt as to the veracity of claims made under ECO
- 1<sup>st</sup> October is unreasonably early to enforce these proposals. A typical lead in time is about 2 weeks – i.e. CWI will be installed two weeks after the paperwork is in place – **so the proposal is effectively applied to CSRs prepared after 16<sup>th</sup> September, which is before the consultation ends.** Whatever proposals are adopted there should be a lead-in of at least 6, preferably 12 weeks.
- As Chartered Surveyors we **are** independent, irrespective of the source of our Instructions, by virtue of the fact that we will not adjust our opinion simply to please our client.
- In respect to the CS visiting each property this will be practically impossible, irrespective of the cost involved. I estimate that each property would require an allocation of about 2 hours on site (enough time to inspect each boroscope hole many of which will only be accessible by ladder, and deal with any issues arising) plus an indeterminate amount of travelling time and expense. Our output per Chartered Surveyor would reduce from about 25/day to perhaps 3 (would require a pre-arranged appointment, with the usual risks of not gaining access), and the cost would rise significantly. In order to meet current demand we would need to engage at least 10 more Chartered Surveyors each requiring training, IT equipment and transport. I doubt this would be feasible even if we were prepared to take on the risk of significant additional staff overheads when demand may collapse due to the increased cost. **Right now we are deferring investment decisions in respect of new staff and IT equipment pending the outcome of this consultation**

- Our systems should be robust enough to withstand any reasonable audit process. In particular, I would not expect any of the properties for which we provide a CSR to fail audit unless the Declaration presented to us was found to be false.
- These changes are not “minor” and if adopted without significant modification will lead to a sudden and massive drop in the current high rate of HTT CWI installations, because the professional time required to provide CSRs cannot be mobilised quickly nor at reasonable expense

## APPENDIX B – SNUG NETWORK QUESTIONNAIRE

Installer Name									
Name									
Date									
Designation									
<b>ANSWER</b> (Please delete as appropriate)									
(1) You feel that the proposed changes are penalising the entire insulation industry for issues created by a minority of organisations								Agree	
								Disagree	
(2) You believe that it is right to focus the additional compliance check on those organisations responsible for these issues								Agree	
								Disagree	
(3) The proposed 100% narrow cavity verification process would considerably reduce the volume of narrow cavities you would be able to submit under ECO								Agree	
								Disagree	
(4) You are concerned about the existing capacity and capability for 'independent' assessors to undertake these narrow cavity surveys and believe this will slow down considerably your work flow								Agree	
								Disagree	
(5) You do not believe there is sufficient capacity for chartered surveyors to undertake HTTC surveys if the requirement for a site visit is imposed								Agree	
								Disagree	
(6) You are concerned at the additional cost which will be added should the chartered surveyor have to personally assess each property								Agree	
								Disagree	
(7) These proposals would cause you to reconsider doing certain hard to treat cavity works which required this chartered surveyors report								Agree	
								Disagree	
(8) Arranging a larger number of mid-installation inspections for hard to treat cavity wall insulation will result in a negative impact on productivity and have an adverse affect on costs.								Agree	
								Disagree	
(9) The changed proposed by Ofgem will negatively affect your business plan for the remainder of ECO (ie - you foresee considerably less of these measure being installed								Agree	
								Disagree	
(10) - If these changes come into force you may consider stopping works on hard to treat cavities								Agree	
								Disagree	

**The results of this survey can be seen in 'Appendix 1' – A summary sheet provided as a separate document to this response.**