

# Fuel Poverty Advisory Group

*(for England)*

## **Tenth Annual Report**

2011-12

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## Note

The diverse nature of the Fuel Poverty Advisory Group's (FPAG) membership may, on some occasions, prevent unanimity on some of the points within this report.

# The key recommendations to Government are:

## Prime Minister and Cabinet Office

The affordability of energy is a real concern to all hard-pressed households and your leadership regarding energy tariffs is welcome. However, this action must also be accompanied by the committed engagement of a number of Government departments and not just the Department of Energy and Climate Change (DECC).

Despite the long term potential benefits of Energy Market Reform consumers' energy bills will continue to rise. Consequently, serious measures will be required if the Government is to meet the legally binding target to eradicate fuel poverty by 2016. If this target cannot now be met, we need an honest conversation with 'no stone left unturned' to make sure all households have access to affordable energy now and in the future.

## Chancellor of the Exchequer and Treasury

A precedent has been set through the compensation awarded to industry for the impact of the Carbon Price Floor, EU Emission Trading System (EU ETS) and Contracts for Differences policies. FPAG seeks a similarly mitigating policy for a publicly funded energy efficiency programme to compensate and protect low income households from price rises.

The use of carbon tax revenue to fuel poverty proof poor housing for low income households would have multiple benefits in addition to living in a warmer more energy efficient homes, including carbon reduction, improved health, and economic growth. Over the next 15 years c. £63 billion will be added to consumers' energy bills through the Carbon Price Floor and EU ETS. The French,<sup>1</sup> Estonian,<sup>2</sup> and Australian<sup>3</sup> Governments are all recycling some on their carbon revenues back to consumers through insulation measures and in Australia, compensatory welfare benefit increases.

## The Secretary of State for Energy and Climate Change

To prepare a coherent road map that will meet an ambitious target to eradicate fuel poverty and to lead a cross-departmental ministerial group drawn from key departments including Department for Communities and Local Government, Department of Health, Department for Work and Pensions and HM Treasury, and tasked to make rapid progress and drive synergies. Such a plan should show 'what' by 'when' and by 'whom' and precisely how each element would be funded.

To provide comprehensive impact assessments to show the distributional impacts of all DECC policies highlighting the inequity and financial impact on low income and vulnerable consumers of recovering government policies through levies on domestic energy bills.

To ensure Benefit Entitlement Checks form an integral part of all energy efficiency schemes. In the forthcoming Energy Company Obligation, Benefit Entitlement Checks should play a key role in assisting households on a low income.

<sup>1</sup> <http://bit.ly/XJqVRr>

<sup>2</sup> <http://bit.ly/TM2Pzu>

<sup>3</sup> <http://bit.ly/RWiQXU>

### The Secretary of State for Communities and Local Government

To bring forward the current 2018 date by which all private rented properties must be brought up to a minimum energy efficiency standard rating.

To strengthen under the Home Energy Conservation Act local authorities' duties to ensure local delivery of effective fuel poverty programmes.

### The Secretary of State for Business, Innovation and Skills

To ensure robust consumer representation and protection regarding the energy industry.

To recognise that the full refurbishment of homes in fuel poverty could provide 71,000 , frequently semi-skilled, construction industry jobs by 2015.<sup>4</sup>

To instigate a review of potential regulatory oversight being extended to off gas grid fuels such as liquid petroleum gas (LPG) and Heating Oil, which considers Priority Service Registers, safety checks and payment options.

### The Secretary of State, Department for Work and Pensions

To carry out an urgent impact assessment of the effects of welfare reform on fuel poverty which is not currently expected to take place until 2015.

To develop sustained, co-ordinated campaigns to encourage benefit take up. The Government should allocate a percentage of the total amount of unclaimed benefits to fund delivery of Benefit Entitlement Checks.

To recognise that the Government's proposed revised definition of fuel poverty will result in over 1 million households deemed to no longer be fuel poor. However, within this group there will be many households below the poverty line which will not be able to afford to heat their home to an adequate standard of warmth. These households will require additional help through income measures to achieve a warm, safe home.

Legislate to extend the data matching powers that are currently used under the Warm Home Discount scheme, to enable all households in receipt of Cold Weather Payments to allow energy suppliers to provide energy efficiency measures to those at a high risk of living in fuel poverty.

### The Secretary of State, Department of Health

To continue to support the Cold Weather Plan and the Warm Homes Healthy People Fund to deliver a co-ordinated action on cold homes and build on its initial success.

To require the new Health and Wellbeing Boards to implement preventive and curative measures to address the cause and effects of fuel poverty at a local level.

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<sup>4</sup> "Jobs, growth and warmer homes: Evaluating the Economic Stimulus of Investing in Energy Efficiency Measures in Fuel Poor Homes" Cambridge Econometrics & Verco for Consumer Focus, November 2012

# Executive Summary

## The fuel poverty context

The Government's recent Energy Bill announcement<sup>5</sup> to allow energy companies to charge households and small business consumers an extra £7.6 billion until 2020 to fund low carbon energy, plus the ongoing inexorable rise in world wholesale energy prices, must sound the alarm that time is rapidly running out to make the homes of the fuel poor, fuel poverty proof, through heating and insulation measures. Where poverty is the key driver of a cold home, the Government must also be ensuring adequate income measures through the benefit system are in place.

The average domestic dual fuel bill is now at a record high of £1,365 per annum<sup>6</sup> creating severe additional hardship for some six million UK fuel poor households.<sup>7</sup> The problem is even more acute for many living off the gas grid using Oil or LPG, where average fuel bills are circa £2,100 per annum.<sup>8</sup> The Government's Energy Market Reform (EMR) has no beneficial impact on bills between now and 2016 and adds costs from 2016 onwards.

Under the current definition of fuel poverty nearly 50 per cent of households are pensioners (10 per cent contain a person over the age of 75 or over), 34 per cent contain someone with a disability or long-term illness, 20 per cent have a child aged 5 or under.<sup>9</sup> Hence the plight of the ever increasing numbers of fuel poor households has never been more serious than it is today. High energy bills cause stress and misery for many and often ill health as well for those living in a damp and poorly insulated property.

Those with the lowest incomes are the least able to absorb price rises, as fuel makes up a much more significant proportion of their incomes than is the case for those on higher incomes. The mean annual income of fuel poor households in the UK in 2010 was £11,000 compared to an average income of £32,000 for non-fuel poor households.<sup>10</sup> In addition, those on the lowest incomes typically pay more for their energy with households with an average income of £6,500 paying £1,954 for their energy, compared to those earning around £42,000 paying £1,244 per annum.<sup>11</sup> It is clear that a major step change in the energy efficiency of our housing stock is the only viable and long term solution if we are to have any hope of reducing the financial, physical and psychological health impacts of the ever increasing cost of energy bills. Such a change will cost money; more money than any government has been able to commit thus far.

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<sup>5</sup> <http://bit.ly/Z56ZbS>

<sup>6</sup> Ofgem: Electricity and Gas Supply Market Indicators updated 22 November 2012

<sup>7</sup> Consumer Focus 2012

<sup>8</sup> DECC, Fuel Poverty Detailed Tables 2010

<sup>9</sup> Hills Review 2011 2012

<sup>10</sup> DECC (2012) Annual Report on Fuel Poverty Statistics 2012

<sup>11</sup> DECC Fuel Poverty Detailed Tables 2010

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Meanwhile, FPAG notes the Chancellor's recent decision to recycle some £300 million of the sums to be received from the carbon price floor (c. £1.4 billion to be paid by all consumers) to only industrial energy users of electricity to soften its impact, yet will not do something similar to protect the most financially disadvantaged fuel poor consumer in this context.

At the same time as the energy industry sets course for a low carbon transformation and EMR, the future of fuel poverty, its measurement, definition, mitigation schemes and the welfare benefits system will all change. For the first time since 1978 there will no longer be a government funded fuel poverty programme in England. The devolved assemblies of Scotland and Wales, however, will keep their funded schemes which will be in addition to a GB wide new energy supplier obligation.

The new Energy Company Obligation (ECO) will begin in 2013 and contain three new elements – Carbon Target, Affordable Warmth and a Carbon Savings Community Obligation (CSCO). Affordable Warmth and CSCO will be focused on low income households and will amount to some £540 million per annum of the new ECO's £1.3 billion per annum (the cost of which will be recouped from all consumers' energy bills). However, for England, this will represent a 44 per cent cut in funding for energy efficiency schemes compared to the current schemes.<sup>12</sup> Government's own projections indicate ECO alone can only remove between 125,000 – 250,000 households from fuel poverty by 2023;<sup>13</sup> at best a 5 per cent reduction of the current number of fuel poor households.

### **The Hills Fuel Poverty Review**

Professor John Hills, at the request of Government, undertook an independent review of the fuel poverty definition and measurement which completed in April 2012. Professor Hills' 'interim findings' and conclusion that fuel poverty is a: 'distinct and serious problem; that it deserves and requires attention as recognised by Parliament in adopting the Warm Homes and Energy Conservation Act', were welcomed by FPAG. We also noted and strongly endorsed Professor Hills' emphasis on the detrimental physical and mental health consequences of living in a cold home.

In his final report of the Fuel Poverty Review, Professor John Hills stated: "It is essential that we improve the energy efficiency of the whole housing stock. But those on low incomes and in the worst housing can neither afford the immediate investment needed nor afford later repayments without additional help." FPAG unequivocally agrees with Professor Hills.

It remains very clear that irrespective of how fuel poverty is to be eventually defined and measured, the number of households and occupants will still remain in the millions and also take many years to resolve irrespective of the Government's legally binding target to do all that is "reasonably practicable" to eradicate fuel poverty by 2016 as required under the Warm Homes and Energy Conservation Act 2000. Meanwhile, FPAG will continue its dialogue to resolve its remaining concerns about the proposed new approach to fuel poverty measurement.

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<sup>12</sup> "The impact on the fuel poor of the reduction in fuel poverty budgets in England" Association for the Conservation of Energy, November 2012

<sup>13</sup> DECC (2012), Final stage impact assessment for the Green Deal and Energy Company Obligation

## **An ambitious fuel poverty strategy from carbon revenues**

The UK's transition to a low carbon economy will have profound implications for all consumers, but particularly so for the fuel poor. Many stakeholders, including FPAG, argue for major intergenerational policy change, the costs of which should be met through Treasury funding and not by costs directly added to consumer's energy bills. This approach, by default, is inherently very regressive. This inequity is compounded when the market intervention is effectively a 'tax' to facilitate low carbon generation to coexist with fossil fuel generation in the competitive energy market and the sums raised subsumed into Treasury coffers.

The introduction of the Carbon Price Floor, subject to the Annual Budget debate is such an example. This intervention will see the cost of carbon steadily rise in GB to £30 per ton by 2020, compared to circa £6.50 per ton at present. Together with the auctioning of EU emissions trading scheme permits to fossil fuel generators, this will raise around £2 billion in 2013 rising to nearly £7 billion by 2027 an average of £4 billion per year.<sup>14</sup> Both these measures will lift the market price for energy and hence the consumer will pay more.

FPAG robustly challenges any assumption that Government cannot afford to aggressively tackle fuel poverty. It argues that if we can use carbon tax revenue to benefit fuel poor households in particular, there will be multiple benefits from having warmer homes including improved health, greater energy efficiency, carbon reduction and economic growth. Over the next 15 years c. £63 billion will be added to consumer energy bills through the Carbon Price Floor and EU Emissions Trading System (ETS). Meanwhile, the French,<sup>15</sup> Estonian,<sup>16</sup> and Australian<sup>17</sup> Governments are recycling some on their carbon revenues back to consumers through insulation measures and in Australia, welfare benefit improvements as well.

**FPAG, therefore, calls upon the Government for a very determined fuel poverty strategy that will have a coherent road map to meet an ambitious target.**

## **Improving energy efficiency for the fuel poor**

FPAG is concerned that there is little to no public knowledge of what ECO Affordable Warmth is, what it will and will not provide, and how consumers can access the scheme. We urge DECC to learn the lessons from a scheme with a highly restrictive eligibility criteria and how the lack of marketing activity adversely impacted on the re-opening of Warm Front.

FPAG requests Government brings forward the current 2018 date by which all private rented properties must be brought up to a minimum energy efficiency standard rating, making it unlawful to rent out a house or business premise that does not reach this minimum standard.

## **Fuel poverty and household income**

Fuel price rises have far outstripped increases in household income and have hit the poorest hardest; many low-income households therefore need urgent and immediate help with rising energy costs.

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<sup>14</sup> "Jobs, growth and warmer homes: Evaluating the Economic Stimulus of Investing in Energy Efficiency Measures in Fuel Poor Homes" Cambridge Econometrics & Verco for Consumer Focus, November 2012

<sup>15</sup> <http://bit.ly/XJqVRr>

<sup>16</sup> <http://bit.ly/TM2Pzu>

<sup>17</sup> <http://bit.ly/RWiQXU>

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FPAG welcomes the assistance with energy bills being provided to low-income pensioners through the Warm Home Discount scheme. However, it remains concerned that assistance for other vulnerable customers – including those on low incomes with young families or with disabilities, is much more limited. For these households, each supplier sets their own eligibility criteria (with the approval of regulator Ofgem) that determine which households should benefit. This creates uncertainty and inequity for consumers, and additional costs for suppliers to identify these consumers and deliver the schemes. Extending the data matching powers taken in the Pensions Act 2008 to a wider group of benefit recipients would represent a much more efficient use of resources and support greater numbers of customers. FPAG recognises that this would require primary legislation and additional funding from suppliers.

We cannot underplay the impact that Welfare Benefit Reforms will have on fuel poor households. However, the Minister for Energy and Climate Change, Gregory Barker MP stated that the impact of Welfare Reform and the introduction of the new universal credit on levels of fuel poverty will only first be assessed in 2015.<sup>18</sup> FPAG considers this timescale as totally unacceptable and calls on the Government to conduct an impact assessment as a matter of urgency.

In 2009-10 up to £12 billion in means tested benefits were unclaimed – nearly 25 per cent of all available benefits expenditure.<sup>19</sup> Previous years have a similar profile. In addition up to £3.9 billion in Child Tax Credits and £4.4 billion in Working Tax credits went unclaimed.<sup>20</sup> Benefit Entitlement Checks were dropped for the Warm Front scheme and there is no indication that they are to form a part of any new energy efficiency scheme. Hence, the case of an ongoing benefits take up campaign is still relevant today. FPAG is very disappointed at the Government's proposal to discontinue publishing the estimates of the benefit take-up series.

FPAG, therefore, reiterates its call, made in both FPAG's 8<sup>th</sup> & 9<sup>th</sup> annual reports, for a sustained, continuous and properly co-ordinated campaign to encourage benefit take up. This should not just be left to energy suppliers – although they can and should play a role – but is a matter for Government, as well as the voluntary and community sector, consumer organisations and local authorities.

### **Fuel poverty as a public health issue and local authorities**

The Department of Health has recently published its second Cold Weather Plan for England; it builds on the recent work by Professor Marmot's team and other research which has shown an unequivocal link between cold homes and negative health outcomes as mentioned in FPAG's 9<sup>th</sup> Annual Report. The National Institute for Health and Clinical Excellence (NICE) is currently reviewing the evidence.

The Cold Weather Plan calls for local action to be better prepared for winter and with measures to respond to cold periods in winter. These are to be jointly developed by the NHS, local authorities and local resilience forums. Health and social care professionals, and the local voluntary and community organisations, should all be working together to identify vulnerable households, and raising the awareness of how cold weather affects health and what preventive actions people can take.

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<sup>18</sup> Hansard Citation: HC Deb, 3 September 2012, c26W

<sup>19</sup> DWP (2012) Income Related Benefits: Estimates of take-up in 2009-10

<sup>20</sup> HMRC (2012) Child Benefit, Child Tax Credit and Working Tax Credit Take-up rates 2009-10



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While FPAG welcomes this activity, it does have a concern about how robustly different initiatives will be driven forward. Too much of the wording appears permissive with little in the way of firm targets.

In FPAG's view, fuel poverty and its impact on health and inequality should be a prime agenda item for local authorities and the newly established Health and Wellbeing Boards. Directors of Public Health from their new bases back in local authorities should have a major opportunity to give impetus to this. A new fuel poverty 'toolkit' should be developed and aimed at the Health and Wellbeing boards along the lines of the National Heart Forum guide, and reinforced by guidance from NICE as soon as possible.

# Chapter 1: The Hills Fuel Poverty Review

## Summary and recommendations

FPAG comprises representatives of a wide range of diverse organisations which do not always share a common view or perspective on fuel poverty issues. Consequently, where a consensus can be identified, we can be confident that this shared view must be worthy of serious consideration. Such a consensus can be found in the response to specific elements of the Hills proposals for a new definition of fuel poverty, both positive and negative. However, in the interests of brevity, FPAG wishes unequivocally to declare its ongoing concerns about some aspects of the final Hills proposals:

FPAG's main concerns:

- A low income/high cost measure does not sufficiently encapsulate the problem
- Affordability being determined by reference to median household expenditure
- The perceived interpretation by the Hills review of the Warm Homes and Energy Conservation Act 2000
- The large numbers of low-income households no longer being classed as 'fuel poor' yet cannot afford their fuel costs
- That 'reasonable costs' does not reflect affordability
- Linking high energy costs to median expenditure creates an insensitive fuel poverty measure to progress and energy price changes
- By including disability benefits such as Disability Living Allowance (DLA) in the income calculation makes it look like those households in receipt of disability benefits are on higher incomes and exclude more of them from the fuel poverty calculation
- The proposal takes no account of the type of occupancy in considering the factors for reasonable energy costs
- Minimal recognition of the cogent arguments put forward by stakeholders in the final Hills proposals

### **A way forward**

Member organisations of FPAG have undertaken or commissioned extensive research into how the issues in the proposed new definition might be resolved. They suggest a number of constructive improvements but all concur that the Hills' recommendations can only be endorsed provided the 'reasonable costs' element is modified to better reflect our understanding of affordability. FPAG recognises that Hills clarifies the distinction between Fuel Poverty and Poverty. However, if the problem of poverty is not captured in this context it will be a dereliction of duty by government not to have clarity of this issue laid firmly at the 'door' of The Department of Work and Pensions' (DWP).

### **Background**

In FPAG's Ninth Annual Report we commented positively on the interim findings from the Hills Review of the fuel poverty definition and targets. In particular we welcomed the conclusion that fuel poverty is a: 'distinct and serious problem; that it deserves and requires attention as recognised by Parliament in adopting the Warm Homes and Energy Conservation Act; and that the Act captures the core of the problem as being the overlap between low income and high energy costs.' We also noted and strongly endorsed Professor Hills' emphasis on the detrimental physical and mental health consequences of living in a cold home. Fuel poverty is a significant public health problem causing considerable sickness and excess winter mortality.

The Hills' analysis and proposals were overwhelmingly endorsed across a number of areas. Group members were supportive of the recommendation that the low income element of the fuel poverty formula should follow the official definition of poverty used in general poverty statistics. This would remove a number of significant anomalies in the current definition through, for example, use of equivalised income and by calculating income on an after-housing-costs basis.

However, members of FPAG rejected the key proposal of Hills, that the concept of affordability should be determined by reference to median household expenditure *i.e.* the 'reasonable costs' threshold should be based on the median level of fuel expenditure required across all households.

As noted above, the Hills Review had recognised that the wording of the Warm Homes and Energy Conservation Act 2000 was: 'entirely appropriate: we are concerned with individuals living in a home which cannot be kept warm at reasonable cost.' However, we believe that this recognition of the Act's validity in identifying the core elements of fuel poverty does not result in these elements being transposed to the revised definition of fuel poverty. The new definition leads to large numbers of low-income households no longer being classed as 'fuel poor', yet these households clearly cannot afford their fuel costs.

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We believe that this unfortunate and unacceptable circumstance results from an erroneous interpretation of the wording of the Warm Homes and Energy Conservation Act 2000. Professor Hills infers that the term ‘reasonable costs’ refers to a situation where a household faces energy expenditure no higher than or equal to median needed spend. Clearly this approach fails to take full account of the low income aspect and the obvious fact that even lower required expenditure will not be affordable for many financially disadvantaged households. FPAG fundamentally disagrees that ‘reasonable costs’ equates to affordability.

By linking high energy costs to median expenditure it is inevitable that the incidence of fuel poverty is subject to minimal variation even where energy costs increase significantly or, conversely, where substantial improvements are made to energy efficiency standards. We do not believe that this outcome would be intelligible or credible to stakeholders concerned to ensure that low-income households have access to affordable warmth.

We see little value in an indicator that barely changes over time and does not help track progress on policy. Failure to address and resolve this issue risks bringing Government fuel poverty policy into disrepute among observers and stakeholders. Given these strong reservations we were disappointed to find that the final consultation document published by the Department of Energy and Climate Change (DECC) proposed adoption of the Hills recommendations with minimal recognition of the cogent arguments put forward by stakeholders.

In responding to the final Hills proposals, we emphasised the inadequacy of Government policies and programmes and reiterated our demand for a road map showing how we could reach the destination envisaged in the Warm Homes and Energy Conservation Act – the eradication of fuel poverty. In this respect we welcome the support of Professor Hills in his reflections on the way forward for fuel poverty policy:

- Energy efficiency policies targeted on low-income households are most effective in addressing fuel poverty
- Effective future action requires a reinvigorated fuel poverty strategy and the involvement of many Government departments
- Greater clarity is needed on: the range of actions necessary for tackling fuel poverty; how they interact together; who owns each action; the milestones towards 2016; what is going to happen if these milestones are not reached; and funding

FPAG looks forward to an ongoing and constructive dialogue to resolve its concerns.

# Chapter 2: An ambitious Fuel Poverty Strategy from carbon revenues

## Summary and main recommendations

FPAG, along with other stakeholders, challenges any assumption that Government cannot afford to aggressively tackle fuel poverty. It argues that if we can use carbon tax revenue to benefit fuel poor households there are many benefits from warmer homes – better health, greater energy efficiency, carbon reduction and economic growth.

The two new elements of the ECO – Affordable Warmth and a Carbon Savings Community Obligation, some £540 million per annum in all – will be targeted to fuel poor consumers and low income households. However, for England, this will represent a 44 per cent cut in funding compared to previous energy efficiency schemes.<sup>21</sup>

To mitigate the financial and health impact of rising energy bills on low-income households, the pace and scale of energy efficiency improvements to their homes must be dramatically increased.

FPAG, therefore, calls upon the Government for a very determined fuel poverty strategy that will have a coherent road map to meet an ambitious target with specific timescales which include a range of policies required to tackle the issue such as:

### Energy efficiency policies:

- a new resourced duty for local authorities to meet fuel poverty targets
- a recognition that energy efficiency programmes for low income households cannot rely on market mechanisms alone
- a mechanism that integrates market based Green Deal and ECO policies with publicly funded programmes e.g. Scottish National Retrofit combining its £65 million with £135 million of ECO support
- ECO focusing on low cost measures with carbon revenues used to fund more expensive measures
- much greater emphasis on affordability and health inequalities including a thorough review of the way intergenerational costs are being recovered

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<sup>21</sup> “The impact on the fuel poor of the reduction in fuel poverty budgets in England”  
Association for the Conservation of Energy, November 2012

## Income measures

- a significant role for income measures, specifically Benefit Entitlement Checks
- more data sharing through primary legislation to expand the targeted number of recipients to the successful Warm Home Discount scheme

## Health issues

- new targets to reduce ill health caused by living in cold homes

To achieve these aims DECC should lead a cross-departmental ministerial group from key departments including Department for Communities and Local Government, Department of Health, Department for Work and Pensions and HM Treasury, to derive synergies and drive progress.

## Background

FPAG has asked successive governments to clearly set out a road map showing how they would meet the legally binding target to eradicate fuel poverty by 2016. Such a plan to show 'what' by 'when' and by 'whom' and precisely how each element would be funded.

FPAG recognises the financially constrained times of the present but challenges any assumption that we cannot afford to aggressively tackle fuel poverty.

The table below illustrates the fundamental difficulties faced by fuel-poor households. Not only are they economically disadvantaged, they also need to spend more on fuel, in absolute terms, to achieve a warm and healthy living environment *i.e.* those who need to spend most on fuel are least able to do so and live in the most thermally inefficient properties

Fuel expenditure as a % of income	Number of households (thousands)	% of whole stock	Average full income (£)	Average fuel costs (£)	Average SAP05
<5%	9,900	45.8%	41,963	1,244	59.1
5-10%	8,164	37.8%	19,832	1,338	54.0
10-15%	2,275	10.5%	12,549	1,497	47.0
15-20%	641	3.0%	9,649	1,644	42.0
>20%	620	2.9%	6,567	1,954	36.0
<b>Total</b>	<b>21,600</b>	<b>100.0%</b>	<b>28,526</b>	<b>1,338</b>	<b>54.7</b>

Source: Detailed Tables published by DECC in 2012

Over the next 15 years £63 billion will be added to consumer energy bills through the carbon floor price and EU Emissions Trading System (ETS). That is an average of £4 billion a year not available for consumers to spend keeping warm, or for companies to invest in cleaner generation and smart grids. It also removes consumer spending power more generally which is more keenly felt in deprived communities.

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If we were to add this £4 billion towards ECO we could make many more fuel poor homes warmer, more affordable to heat and take a giant step towards our legally binding fuel poverty and carbon reduction targets.

This is the approach being taken by the French Government. It recently announced it will be insulating one million existing homes per year partly funded from the proceeds of auctioning its allocation of EU-ETS allowances.<sup>22</sup>

The Australian Government introduced a carbon tax in July 2012.<sup>23</sup> More than half of the revenue raised will be used to help households. The assistance will be delivered in the form of tax cuts and increased welfare payments. The Australian Government claims that nine out of ten Australian households will receive some form of assistance, and of that figure, the Government claims that many low income households will receive greater assistance than the impact of a carbon price.

Energy efficiency is on the UK Government's agenda. Its Green Deal is a new finance mechanism that will make it easier for consumers to pay for energy efficiency improvements to their homes. The new ECO on fuel suppliers will complement Green Deal and help pay for improvements to the homes of low income consumers and those that are 'hard to treat'.

However, Government projections indicate ECO alone can only remove between 125,000 – 250,000 households from fuel poverty by 2023.<sup>24</sup> At best, this represents only 5 per cent of the current number of fuel poor households.

Professor Hills stated in his final report that by investing in energy efficiency programmes for low income vulnerable households the rate of return significantly out-weighed the cost of implementation and gave a better rate of return compared to other Government infrastructure projects such as High Speed 2. FPAG would like to see this recommendation implemented by Government.

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<sup>22</sup> <http://bit.ly/XJqVRr>

<sup>23</sup> <http://bit.ly/RWiQXU>

<sup>24</sup> DECC (2012), Final stage impact assessment for the Green Deal and Energy Company Obligation

# Chapter 3: Energy Efficiency – The Transition to the Energy Company Obligation

## Summary and recommendations

The end of the Warm Front scheme will mean that for the first time since 1978 there is no taxpayer-funded programme in England to install energy efficiency measures in dwellings occupied by vulnerable and low-income households.

- Government should urgently clarify how it envisages the transition from existing schemes to the Green Deal and Energy Company Obligation (ECO) to ensure vulnerable households do not lose out.
- Most FPAG members consider that the ECO should provide assistance for both the hardest to reach and the hardest to treat properties, to provide more expensive measures such as solid wall insulation and renewable technologies, but prioritising support for fuel-poor households.
- FPAG would once again emphasise its concerns over the regressive nature of the fund-raising mechanism for the new ECO and considers that energy efficiency measures for fuel-poor households should be funded through either taxation or via the recycling of carbon revenues.

## Background

FPAG maintains the view that Warm Front has been an extremely successful programme. Since 2000 the scheme has assisted over 2.3 million vulnerable households, with an average saving of £610 per year on their energy bills, and reducing carbon emissions by 6 tonnes over the lifetime of the energy efficiency measures installed.<sup>25</sup>

The financial year 2011-12 saw Warm Front re-open with a vastly reduced budget of £110 million compared to £345 million in 2010-11. It also adopted a much changed eligibility criteria with a number of benefits being withdrawn from the qualifying criteria and a **Standard Assessment Procedure (SAP)** threshold being introduced.

Despite the significant reduction in the budget, 2011-12 saw the first under spend in the history of the Warm Front scheme, that is to say that not all the allocated budget was spent at the end of the financial year. DECC's own figures show that once rebates and other budget adjustments were made "Out of a total budget of £145 million for 2011-12, £50.6 million was therefore not spent and was returned to the Treasury." FPAG estimates that this funding, had it been utilised, would have provided assistance to another 22,000 households.

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<sup>25</sup> Warm Front Annual Report 2010/11



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There is a combination of factors behind this under spend, including a lack of marketing activity around the re-opening of the scheme to new applications, a tighter eligibility criteria and doubts amongst local authorities and community bodies about the future of the scheme.

In our last report, FPAG stated our belief that the removal of the Benefit Entitlement Check (BEC) service from Warm Front was hugely regrettable. Given that the scheme re-opened with a much changed eligibility criteria and little to no marketing activity, the decision by DECC not to offer low income and vulnerable households a service that had previously proven to be a huge success in identifying benefits they are eligible for might at best be seen as unfortunate and at worse a dereliction of duty to vulnerable customers.

It is FPAG's belief however that the key reason for the under spend was the almost complete lack of marketing budget for the scheme. In taking the steps of closing the scheme down, dramatically altering the eligibility criteria and then re-opening it without any publicity to explain the changes in the scheme, Warm Front was dealt a significant blow in terms of its public profile and presence in peoples' consciousness.

At its height, the scheme manager had a team of 21 networkers, working across the country to promote the scheme with local authorities and charitable and voluntary organisations who by their very nature have a much better understanding of, and interaction with, the households at whom the scheme is targeted. FPAG understands that with the reduction in marketing spend and budget for the scheme this number has reduced to 3, with the obvious effects in terms of level of interaction with these bodies and the promotion of the scheme.

FPAG raises concern that the withdrawal of all taxpayer funding for energy efficiency assistance to low-income households, while the number of households in fuel poverty continues to rise, calls into question whether the Government is fulfilling its obligation to do all that is "reasonably practicable" to eradicate fuel poverty by 2016 as required under the Warm Homes and Energy Conservation Act 2000. FPAG would suggest that taxpayer funded schemes can deliver better results in terms of lifting numbers out of fuel poverty. With obligations recovered from energy bills, any success in lifting households out of fuel poverty is tempered by moving others in due to the added costs on bills.

## Transition into ECO

FPAG is of the view fuel poverty schemes should be funded by the exchequer and not from a levy on customers' bills. It is perhaps at best disingenuous to describe the new ECO as a financial obligation on energy companies – it is an obligation on the bill payers that the energy companies pass the costs onto.

It remains a fundamental truth that any success of schemes funded by a levy on bills will be offset by a number of households being moved into fuel poverty by the increase of their bills to fund the levy. FPAG urges the Government to consider using existing and future carbon revenues to the Treasury, the increased VAT receipts from the latest round of energy price rises or the redirection of funds from providing Winter Fuel Payments to higher rate taxpayers to fund a scheme that provides energy efficiency measures to fuel poor households without adding to fuel bills.

FPAG still has great concerns that there is little to no public knowledge of what ECO Affordable Warmth is, what it will and will not provide, and how customers go about applying. We urge DECC to learn the lessons of how the lack of marketing activity adversely impacted on the re-opening of Warm Front and commit to a government-backed marketing campaign to promote the assistance available under ECO Affordable Warmth so that fuel poor households are not doubly disadvantaged by a cold home and a lack of understanding about where to get help.

# Chapter 4: The Green Deal and the Energy Company Obligation

## Summary and recommendations

The Green Deal and ECO Affordable Warmth provide an opportunity to establish an effective framework that can deliver against the twin objectives of eradicating fuel poverty and significantly reducing carbon emissions from the housing stock.

## Recommendations

- To bring forward the current 2018 date by which all private rented properties must be brought up to a minimum energy efficiency standard rating, making it unlawful to rent out a house or business premise that does not reach this minimum standard.
- FPAG reasserts its recommendation that the bulk of the ECO is devoted to the Affordable Warmth target and that fuel-poor and low-income households should also be prioritised for assistance under the carbon target (e.g. solid wall insulation).

## Background

The Energy Act 2011 introduced the Green Deal, which is intended to deliver a national programme of energy efficiency measures to homes and small and medium enterprises. Ministers have stressed that this initiative will provide access for everyone to energy efficiency measures and enable all households to reduce their energy bills and their carbon emissions. The Green Deal Finance Mechanism will comprise a market-based ‘Pay-as-You-Save’ model. Whilst details of the finance model are not yet finalised, the basic principle is that the householder should receive a package of energy efficiency measures, at no up-front capital cost. The repayment mechanism is associated with the property rather than with the householder; consequently, if the occupants of the property change, the obligation to pay the Green Deal charge will pass to the new occupier. The Green Deal has one ‘golden rule’ – that the repayments will be less than the savings achieved from the energy efficiency measures installed.

FPAG members have stressed to Government that the ‘golden rule’ will not be applicable to most fuel-poor households.<sup>26</sup> Such households would be expected to increase the warmth of their home rather than see a reduction in their fuel bills. Previous Government analysis of the installation of energy efficiency measures suggests that, in fuel-poor households, at least 30 per cent of the benefit is taken in the form of increased comfort i.e. a warmer and healthier living environment, rather than financial savings. There is also concern that the Green Deal would be asking people on low incomes to enter into a credit agreement and that those who get in financial difficulties would be treated in the same way as other energy debts.

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<sup>26</sup> Consumer Focus, Centre for Sustainable Energy, Joseph Rowntree Foundation:  
“Understanding Fuel Expenditure – Fuel poverty and Spending on Fuel”: October 2011

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The Government has partially responded to this issue and DECC's 2010 'Annual Energy Statement' contained assurances that: "the new obligation (ECO) will underpin the Green Deal and focus particularly on those householders (e.g. the poorest and most vulnerable) and those types of property (e.g. the hardest to heat) which cannot achieve financial savings without a measure of support". This should mean that eligible fuel poor households will not be reliant on the Green Deal funding mechanism and can access energy efficiency measures without incurring a charge on their energy meters.

The introduction of ECO is welcomed by FPAG, whose members believe that ECO policy could present a major opportunity to reverse the relentless upward trend in fuel poverty while simultaneously contributing towards the achievement of national carbon reduction targets. However, most FPAG members believe that ECO funding must be dedicated to the alleviation of fuel poverty and not used to subsidise expensive measures for 'Able-to-Pay' households as an artificial means of complying with the 'golden rule'. Otherwise action on fuel poverty would be seriously diminished with the financially disadvantaged households subsidising, through a levy on their energy bills, expensive works carried out on behalf of more affluent households.

The Government has, to some degree, recognised these concerns. A recent paper providing some further information on the ECO states:

*"As the delivery costs of ECO are assumed to be recovered by the energy companies through increases in consumer bills and therefore spread across all households, it is important for the credibility of the scheme to ensure that all households have fair access to the benefits, safeguarding distributional equity. In addition to providing for affordable warmth, this includes considering how the benefits of support for solid wall insulation can be delivered equitably.*

*"We are looking into learning the lessons from CERT, particularly the Super Priority Group, in designing the scheme to provide confidence that the poorest and most vulnerable, for whom there can be significant economic and social barriers to accessing support, stand to benefit equitably."<sup>27</sup>*

As noted earlier, the future of fuel poverty policy will be heavily dependent on the level of expenditure provided by the ECO and from other sources. At the same time, it is acknowledged that improvements to hard to treat housing should be a major element in fuel poverty policies and programmes and this is also recognised by Government.

The Impact Assessment for the Energy Act 2011 states:

*"As of 2007, 33% of fuel poor households lived in homes built before 1919 and 43% of the fuel poor households lived in homes without cavity wall insulation (defined as cavity walls in less than half the dwelling). It is likely that a large proportion of fuel poor households will fall into the 'hard to treat' category".*

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<sup>27</sup> Extra help where it is needed: a new Energy Company Obligation, DECC, May 2011.

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The Committee on Climate Change highlighted this key issue in their 3rd Progress Report, commenting:

*“The particular area of concern is the cost of subsidising solid wall insulation under the ECO which under current proposals would be passed through to all consumers, whether beneficiaries or not. If assessment suggests a significant risk of fuel poverty, mitigating measures that could be introduced include more targeting of the fuel poor under the ECO (e.g. to prioritise solid wall insulation in the 1.9 million fuel poor households that live in solid walled properties).”*

Some FPAG members believe that the most robust “distributional safeguard” would be to recognise the opportunity to combine the two policy objectives and commit the entire ECO to a well structured and co-ordinated fuel poverty programme that can address both social and environmental priorities.

This approach would also have the desired benefit of providing a market transformation in the solid wall insulation industry. Such a transformation would enable the cost of solid wall insulation to be reduced, potentially to a point where it could comply with the ‘golden rule’ enabling Able-to-Pay households to fund these measures through the non-subsidised Green Deal Finance Mechanism. This would bring about significant overall cost savings to consumers (those paying for ECO) and support the Government’s pre-Copenhagen commitment to reduce non-traded household emissions by 29 per cent by 2020.

The private rented sector has a high prevalence of poorly insulated, energy inefficient buildings, causing high energy cost for its tenants. FPAG, therefore, welcomes the amendment to the Energy Act 2011 that from April 2016 residential landlords will not be able to unreasonably refuse requests from tenants for consent to energy efficiency improvements and from 2018, all private rented properties must be brought up to a minimum energy efficiency standard rating, making it unlawful to rent out a house or business premise that does not reach this minimum standard. However, FPAG find it regrettable that the start date is 6 years away, when the people in the least energy efficient housing stock need help to keep warm much sooner.

# Chapter 5: Convergence of government and regulatory initiatives to assist off gas grid consumers

## Context

For those households off the gas grid in 2010, the average heating oil consumer had a modelled spend of £2,102 on their fuel costs per annum, compared to an average fuel spend of £1,287 amongst households on the gas grid.<sup>28</sup> In addition, households off the gas grid have an average SAP rating of 41, compared to an average of 55 amongst households on the gas grid.<sup>29</sup> It can, therefore, be concluded that those households off the gas grid with the highest fuel costs also live in the least thermally efficient buildings, resulting in a higher risk of experiencing fuel poverty.

The Chair of FPAG has been exploring, with Ofgem, creative opportunities for helping fuel poor households off the gas grid. In doing this FPAG has sought to identify other existing energy policy landscape incentives/ambitions and the potential for a joined up approach to facilitate maximum leverage and consumer benefit through a Distribution Network Operator (DNO) for example. Although initially difficult to comprehend, the following examples of energy policy incentives/ambitions may bring the potential for mutually reinforcing policies into focus that currently do not currently present themselves in a coherent way:

- **Ofgem** – Regulatory incentives for distributed generation to avoid network reinforcement costs
- **Ofgem** – Load management incentives to avoid network reinforcement costs
- **National Grid** – System balancing incentives, at the time of excess of renewable energy
- **DECC** – District Heating being potentially “Green-dealable” in the future
- **Ofgem/Ofwat** – Bio-methane incentives for Gas Distribution Networks (GDNs) and Water Companies
- **DECC** – Reducing household carbon emissions
- **DECC/EU** – Carbon revenues – auction EU ETS and Carbon Floor Price and the EU desire to see 50 per cent recycled back to consumers.
- **DECC** – Renewable Heat Incentive and Combined Heat and Power (CHP)
- etc

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<sup>28</sup> <http://bit.ly/U9T7GS>

<sup>29</sup> <http://bit.ly/U9T7GS>

By exploring some of the aspects of the above ambitions/incentives in a creative way FPAG considers it is possible to envision potential example scenarios to assist the off gas grid fuel poor. The following examples are put forward to demonstrate the concept:

### Example 1 Tower Block in a network constrained area

- Tower blocks, although generally in a gas postcode area, are unable to have gas installed. Most are occupied by some of the poorest in society; many are in fuel poverty due to very poor heating systems, high heat loss and a low income
- Tower blocks are usually located in dense urban areas where it is possible network capacity constraints may/could exist at particular times of the year or alternatively capacity being made available to drive other commercial developments in a shorter timescale may be economically attractive and beneficial to the locality. (In some locations high-voltage network reinforcements can take several years to plan and complete)
- A distributed generation solution, run on gas or by bio-methane, could potentially avoid network reinforcement, drive other commercial opportunity and reduce attendant local roadwork disruption
- The hot water created through the generation process could be used as a district heating scheme, perhaps funded by the Green Deal?
- The installation of hard to treat insulation as part of the new ECO/communities saving carbon obligation or alternatively explicitly a Green Deal; and or perhaps partially funded by the social registered landlord could make such a scenario even more financially viable

### Example 2 Off-gas grid small rural village

- Many rural electricity networks have limited capacity to take significant additional on peak or off peak electric heating such as ground source and air source heat pumps, etc without major reinforcement
- A small village amidst a rural farming community with the potential for a biomass/bio methane boiler/CHP/Micro CHP as part of the RHI or Green Deal
- The plant to either provide additional electricity Feed-in Tariff (FiT) or a small local heating system funded by some of the incentives already mentioned
- Alternatively, a local small-scale gas not-for-profit network with bio methane injection feeding local boilers to facilitate a wet heating system or micro-CHP
- Hard to treat insulation via ECO/Green Deal etc

### Example 3 Demand side management

- In excess of 4 million UK households currently have a radio tele-switch which facilitates remote switching of economy seven type tariffs
- Many of these installations also have electric storage resistive type heating

- This GB radio tele-switch solution is considered by many industry observers to be one of the world's most efficient and rapid solutions to demand side management. Yet it is used very infrequently and only to a limited extent for this purpose. It is operated by the DNOs
- Increasing amounts of renewable energy will require this type of demand side solution to facilitate demand side management to manage the vagaries of wind power continuity for example
- Consideration should therefore be given to using this mechanism in conjunction with today's more modern and refined resistive storage heating technology as a means of balancing system demand by storing surplus renewable energy as heat for off gas grid fuel poor consumers

### **Low Carbon Technologies and Extending the Gas Grid**

DECC's Carbon Plan confirms the intention to replace fossil fuels with low carbon technologies to provide heating to those not connected to the gas grid. However, these low carbon technologies must be made more accessible to fuel poor households, who are not able to afford the upfront cost of such measures.

National Energy Action (NEA), both through Warm Front and separately, has been involved in a number of alternative and renewable technology solutions including air-source heat pumps, solar thermal systems, bio-mass heating and photovoltaic systems. These have highlighted, for example, how air source heat pumps installed correctly and with the right support to low income households can provide an effective solution to households without access to the gas network to heat their homes cheaper than other alternative expensive heating fuels such as oil and LPG. It is, therefore, extremely disappointing that the current ECO proposals do not incentivise the use of such technologies within the affordable warmth part of the scheme. We would urge Government to reconsider this position in order to offer the greatest level of support to those households off the gas network.

NEA has also tested state of the art internal insulation products that may prove commercially viable. FPAG looks to Government to demonstrate its commitment and political will for the widespread promotion of these projects to further establish market knowledge, skills and confidence.

Although further extensions to the mains gas grid would be welcome, it should not be viewed as a long term solution for many households. A more sustainable approach would be to establish mechanisms enabling these households to access renewable technologies, particularly for the fuel poor.

In particular, where households cannot be connected to the gas grid, FPAG would like to see other forms of community heating explored, such as district heating, biomass, bio-methane or community renewables schemes with both the gas distribution and electricity distribution schemes designed to be mutually reinforcing in this respect to facilitate this type of creativity.



## Concessionary Coal Allowance

FPAG is encouraged to see Ofgem continuing to provide an incentive for GDNs to invest in new infrastructure that enables 'off-gas' grid Fuel Poor homes to receive financial support for new gas connections. Over the last few years these schemes have seen GDNs develop innovative arrangements that help ensure new gas heating systems and other energy saving measures are also installed into some of the most vulnerable homes in the country.

It is often underestimated how challenging these schemes are to deliver. They are often complex and involve a great deal of stakeholder and customer liaison. Feedback received from GDNs suggests that many households who could benefit from new gas connections and heating systems are loath to 'switch' because they are in receipt of the Concessionary Coal Allowance (coal allowance) administered by DECC.

The provision of the coal allowance seems to be a barrier to providing more energy efficient and environmentally acceptable heating systems. FPAG calls on DECC to review the scheme and consider whether, in the 21st Century, it is appropriate for some of the most vulnerable groups of our society should face the daily challenge of bringing in coal, cleaning out fire grates, waiting for deliveries and continually running the risk of inclement weather influencing whether they are able to adequately heat their homes.

By providing an alternative incentive for these former miners and their dependents to switch fuels would make their homes and lives more comfortable, energy efficient and at the same time make a positive impact on air quality, the environment and perhaps most importantly their health.

In reviewing the coal scheme FPAG would suggest that better use of the £60 million per year would also provide savings to central budgets that could be redirected to supporting these families in providing alternative heating solutions e.g. community heat initiatives, gas solutions, heat pumps etc. In addition, if DECC would consider sharing data on these households they could then be better targeted by energy companies that can provide support to install energy efficient measures to their homes.

The down side of course is that these former miners will suddenly be faced with heating bills for the first time, although arguably this will be off-set as under the current coal scheme recipients can cash in this allowance. In addition, FPAG believes eligible households may also be entitled to support from the Warm Home Discount scheme and the Government's Winter Fuel Payments.

FPAG has also gone on to consider and comment on other specific issues relating to Regulation, Priority Services Register, Warm Home Discount, Winter Fuel Payments and how they affect off Gas grid consumers see Appendix

## Chapter 6: Fuel poverty and poverty

In 2009-10 there were 7.8 million working age adults, 3.6 million children and 1.7 million pensioners living below the poverty line.<sup>30</sup> Income is a key determinant in a household's ability to afford to heat their home to healthy levels.

In 2010, 50 per cent of households in fuel poverty in England were in the lowest income decile along with a further 22 per cent of those in the second decile. In comparison, only 13 per cent of households in fuel poverty were in the fourth to tenth income deciles.<sup>31</sup> The mean annual income of fuel poor households in the UK was £11,000 compared to an average income of £32,000 for non-fuel poor households.<sup>32</sup>

### Fuel costs

Since 2007 the average annual electricity bill has increased by 24 per cent and the average gas bill by nearly 40 per cent. Between 2010 and 2011 the average electricity and gas bills grew by 8 per cent and 9 per cent respectively, a rate significantly out of step with increases in household income.<sup>33</sup>

In 2011 most benefits were increased in line with the Retail Price Index (RPI). In April 2011 RPI stood at 5.2 per cent.<sup>34</sup> Increases in average earnings lag even further behind the price of fuel. During the 2010-11 tax year average earning for full time employees grew by 1.4 per cent<sup>35</sup> and the minimum wage by 2.5 per cent.<sup>36</sup>

Those with the lowest incomes are least able to absorb these price rises. In 2009 the lowest income decile spent almost 8 per cent of their income on fuel in contrast to the highest decile which spent 3.4 per cent on fuel.<sup>37</sup> While exact percentages are likely to have altered since 2009, as fuel prices have continued to rise faster than household income it is reasonable to assume that the lowest income deciles continue to spend a higher proportion of their income on fuel costs than the highest deciles.

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<sup>30</sup> DWP (2012) Households Below Average Income: An analysis of the income distribution 1994/5-2010/11 Poverty line defined here as income below 60% of median income after housing costs

<sup>31</sup> DECC (2012) Annual Report on Fuel Poverty Statistics 2012

<sup>32</sup> DECC (2012) Annual Report on Fuel Poverty Statistics 2012

<sup>33</sup> DECC (2012) Average annual electricity bills by home and non-home supplier and DECC (2012) Average annual domestic gas bills by home and non-home supplier

<sup>34</sup> Office for National Statistics (2012) Consumer Price Indices September 2012 detailed table <http://bit.ly/VyCeW9>

<sup>35</sup> Office for National Statistics (2011) 2011 Annual survey of Hours and Earnings (SOC2000)

<sup>36</sup> Figure calculated using data on historical rates from <http://lowpay.gov.uk>

<sup>37</sup> The institute for Fiscal Studies (2011) The spending patterns and inflation experience of low income households. by Peter Levell and Zoe Oldfield

### **Benefit take up**

In 2009-10 up to £12 billion in means tested benefits were unclaimed, nearly 25 per cent of all available benefits expenditure.<sup>38</sup> In addition, up to £3.9 billion in Child Tax Credits and £4.4 billion in Working Tax credits went unclaimed.<sup>39</sup> The proportion of benefits remaining unclaimed remains largely in line with previous years for each of these categories.

Of those in fuel poverty in the UK, 75 per cent are either unemployed (11 per cent) or economically 'inactive' (64 per cent).<sup>40</sup> This, alongside the concentration of fuel poor households in the lower income deciles makes it reasonable to conclude that at least a proportion of those in fuel poverty are not claiming at least some of the benefits they are entitled to and would therefore profit from benefit take up initiatives.

As stated above, FPAG would like to see BECs incorporated as part of any energy efficiency scheme targeted at fuel poor households. During incorporation of BECs as part of the Warm Front scheme, the BEC service identified on average more than £1,600 per year in additional income for those households who successfully received the service; making a life-changing difference to low-income vulnerable households in the greatest need. DECC's decision not to continue with BECs as part of Warm Front from May 2011 is a decision which FPAG finds hugely regrettable.

### **Welfare reform**

The overhaul of the welfare system brought about by the Welfare Reform Act 2012 will see the amalgamation of almost all working age benefits into one Universal Credit. This will represent a significant simplification of the current system and it is hoped that Universal Credit will help to increase benefit take up as claimants will only have to make one claim to receive all of the financial assistance to which they are entitled.

The potential impact of Universal Credit on take up rates should not, however, be overstated. The need to only make one application is likely to increase take up amongst those who claim some benefit but do not claim for other benefits for which they may be entitled. However, in cases where a person does not claim any benefit at all, despite being eligible, there is no reason to believe that they will choose to claim Universal Credit.

Council Tax benefit is one of the benefits which will not be subsumed into the Universal Credit, and will instead be devolved to the local level with a 20 per cent cut in the budget. Local Governments will be able to set their own criteria for eligibility and, due to the potential pressure on reduced budgets, it is unlikely that the benefit will be heavily promoted, potentially having a negative impact on take up. It is, however, possible that take up may be increased in some areas if the relevant council adopts an effective scheme for encouraging groups which under claim to apply.

**The case for encouraging and facilitating benefit take up initiatives is therefore no less compelling than in previous years.**

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<sup>38</sup> DWP (2012) Income Related Benefits: Estimates of take-up in 2009-10

<sup>39</sup> HMRC (2012) Child Benefit, Child Tax Credit and Working Tax Credit Take-up rates 2009-10

<sup>40</sup> DECC (2012) Annual Report on Fuel Poverty Statistics 2012

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We are disappointed at the Government's proposal to discontinue publishing the estimates of benefit take-up series. If the Government were to go ahead with this proposal it would be virtually impossible for FPAG to see how effectively the benefits system is reaching its intended recipients. This has been a key area of FPAG's focus in previous years.

The reforms to welfare will also have an impact on the income of claimants. DWP's own impact assessment anticipated that 2 million households, including 1.1 million households with children, will be entitled to less support than they currently receive.<sup>41</sup>

A joint report by Disability Rights UK, Citizens Advice and The Children's Society highlighted the likely impact of the reforms on the disabled. It found 100,000 households with disabled children stand to lose £28 per week, 230,000 severely disabled people who do not have another adult to assist them could receive between £28 and £58 a week less than currently and up to 116,000 disabled people who work could be at risk of losing around £40 per week.<sup>42</sup>

Research for Save the Children also found that the reforms would have a negative impact on the income of some working families. For example, they estimate that a single parent with two children, working full-time on or around the minimum wage could lose as much as £2,500 a year.<sup>43</sup>

Concern has also been raised by some stakeholders around the movement away from multiple, weekly or fortnightly benefit payments to one monthly payment per household. Research by the Social Market Foundation found that some benefit claimants were concerned that they would not be able to manage their budgets effectively over a month. The consequences identified by participants in this research included an increased likelihood of running out of money before the end of the month and the risk of relying more heavily on formal or informal credit.<sup>44</sup> A survey conducted by the DWP reaffirmed these findings. Half of the Job Seeker's Allowance claimants and six in ten of Income Support claimants surveyed said that it would be harder to budget on monthly payments.

FPAG is not aware of the Government having yet conducted an impact assessment of welfare reform on fuel poverty. Indeed, in response to a Parliamentary Question from Alex Cunningham MP in September 2012 the Minister for Energy and Climate Change, Gregory Barker stated that the impact of the introduction of universal credit on levels of fuel poverty will first be assessed in 2015.<sup>45</sup> In our view this is far too late. The Government should conduct an impact assessment on the likely impact of the welfare reforms on fuel poverty at the earliest opportunity.

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<sup>41</sup> Department for Work and Pensions (2011), Welfare Reform Bill Universal Credit: Equality impact assessment, November 2011,

<sup>42</sup> Disability Rights UK, Citizens Advice and The Children's Society (2012) Holes in the safety net: The impact of Universal Credit on disabled people and their families

<sup>43</sup> Save the Children (2012) Ending Child Poverty: Ensuring Universal Credit supports working mums

<sup>44</sup> Social Market Foundation (2012) Sink or Swim? The impact of the Universal Credit

<sup>45</sup> Hansard Citation: HC Deb, 3 September 2012, c26W

# Chapter 7: Fuel poverty as a public health issue and local authorities

## Summary and recommendations

The Department of Health has published its second Cold Weather Plan for England, and in its very helpful companion volume ‘Supporting the Case’, it builds on the recent work by Professor Marmot’s team and other research which has shown an unequivocal link between cold homes and negative health outcomes. This activity supports the Public Health Outcomes Framework (PHOF) published earlier this year which recognises the challenge to address the continuing high level of Excess Winter Deaths (EWD). The PHOF includes two indicators which are directly relevant to the Cold Weather Plan – Excess Winter Deaths and the incidence of fuel poor households. Health and Wellbeing Boards through their Joint Strategic Needs Assessment and Joint Health and Wellbeing Strategy will need to identify steps to address fuel poverty locally as an indicator for health improvement.

Whilst FPAG notes and welcomes the emergence of all of this activity and the framework which it is building, it has some misgivings about how robustly the different initiatives noted in this chapter will be driven forward. Too much of the wording and the suggested ways forward are permissive: too little is crafted in terms of firm targets and objectives. In that spirit, FPAG makes the following recommendations:

- Fuel poverty and its impact on health and inequality to be a prime agenda item for local authorities and Health and Wellbeing Boards. Directors of Public Health from their new bases back in local authorities will have major opportunity to give impetus to this
- To develop a new toolkit aimed at the Health and Wellbeing boards along the lines of the now out of date National Heart Forum guide, and reinforced by guidance from the National Institute for Health and Clinical Excellence (NICE) guidance as soon as possible
- The local Cold Weather Plans and the fuel poverty reduction plans (under HECA) must be public documents, and should be nationally evaluated and audited
- The Public Health Outcomes Framework should be strengthened, to include SAP data for the local housing stock and benchmark progress to improve the overall ratings over time
- The Joint Strategic Needs Assessment, which feeds into the strategy plans of the Health and Wellbeing Boards, should track fuel poverty data locally
- The Warm Homes Healthy People programme, which has been run as a one-off last year and this, should be given a more permanent shape and provide for certainty of future development
- Benefit Entitlement Checks, which are disappearing from the energy efficiency agenda with the demise of the current programmes of help and support (but which have a proven record of improving the financial circumstances of households), need to be found space in some part of the new architecture

### Background

Until sixty years ago, health and housing came under the same government department and Secretary of State, recognising the historic importance of the impact of bad housing on health. That link was severed. For many years the building of poor quality, badly insulated housing – contributing to massive future health problems – was the norm.

Today millions of poorly insulated, unhealthy homes remain as the result of building standards set way below those of Scandinavia for example. The rising price of fuel and consequent fuel poverty forced housing standards and particularly insulation back onto the public health agenda and awareness of the massive health problems increased.

This, of course, became linked in with their increasing concern about rising atmospheric carbon levels. The size of the problem was reflected by health organisations which produced reports on the massive health problems of bad housing and fuel poverty. These included the British Medical Association and the Royal College of General Practitioners and were summarised by the National Heart Forum and others in its 2003 report *'Fuel Poverty and Health: A guide for primary care and public health and primary care professionals'*. This set out the evidence of the impact fuel poverty has on health and disease and the measures that needed to be taken. By and large relatively little NHS activity followed.

In 2009 the Government's Chief Medical Officer re-emphasised the importance of the issue and highlighted the enormously important saving that spending on fuel poverty contributes to the NHS. While the saving he suggested of about 41p to the NHS for each pound spent on insulation (that is a £1 spent once, but 41p accruing every year) is debatable, the fact that effective action on fuel poverty massively promotes health and reduces health service expenditure is not in question. Fuel poverty is a significant public health problem causing considerable sickness and excess winter mortality.

The Cold Weather Plan calls for local action to be better prepared for winter and with measures to respond to cold periods in winter. These are to be jointly developed by the NHS, local authorities and local resilience forums. Health and social care professionals, and the local voluntary and community organisations, should be working together to identify vulnerable households, and raising the awareness of how cold weather affects health and what preventive actions people can take.

Alongside the Plan, the Department has also supported the Warm Homes Healthy People programme. This provides a £20 million fund, for which local authorities in concert with local voluntary and community organisations can bid, and is designed to stimulate initiatives to mitigate the effect of cold weather. These might address the needs of people outside their homes, such as clearing snow from paths or doing emergency shopping, or inside their homes such as providing winter survival packs, offering emergency heaters in the event of a boiler breakdown, or a hot meal service. Initiated last year, this programme has generated a diverse range of helpful activity, and enthusiasm, and has raised the profile of cold weather and the risk of fatalities.

NICE is currently reviewing the evidence. Fuel poverty is a massive public health problem causing considerable sickness and excess winter mortality.

Thus far, FPAG is delighted to note the change in tempo and the involvement of health authorities and professionals. However, all of these measures, in a sense, are damage limitation.

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The problem of cold homes remains the physical one of poor quality, badly insulated and inefficiently heated homes.

In the interim and final *'Hills Fuel Poverty Review'* (2011, 2012) fuel poverty is defined as a distinct problem and a major concern for those concerned with health and wellbeing. The review found that “34 per cent of fuel poor households contain someone with a disability or long-term illness, 20 per cent have a child aged 5 or under, and 10 per cent a person aged 75 or over” (Hills Fuel Poverty Review, 2012: 15). Vulnerable populations should be targeted for interventions making it easier for them to stay warm.

Progress towards strengthening the engagement of local authorities with fuel poverty work was also marked this year by the re-issuing of Guidance under the Home Energy Conservation Act. Never the driver of change which its proponents hoped, the Act and its requirements had fallen into something of a black hole, so this new emphasis and fresh Guidance is welcome. Most of it is injunctory and suggestive, rather than obligatory, but the direction of travel is encouraging.

The key requirement is that each (upper tier) local authority must produce a plan by the end of March 2013 describing the steps it will be taking to reduce fuel poverty and improve energy efficiency in its area. This document must be publically available on its website. It will be possible for local residents to assess the measure of their local authority's commitment to reducing energy consumption and fuel poverty.

In addition, the NHS and Social Care Act 2012 established Health and Wellbeing Boards in upper tier authorities as the forum for high level local collaboration and action on health and social issues. We recommend that fuel poverty and its impact on health and inequality becomes a prime agenda item for them. Directors of Public Health from their new bases back in local authorities have major opportunity to real give impetus to this.

The Local Government Association has engaged with the issue with some very helpful 'knowledge hubs' and website developments. There are a significant number of local authorities which have a good story to tell, essentially around how to use their position as local place-shapers, and bringing together local businesses, voluntary organisations, and statutory agencies to pool their resources and share information and skills to drive change. Different activities suit different places and address slightly different needs: this is consistent with the new emphasis on localism, but it adds complexity to trying to drive forward a coherent programme.

NICE has been asked by the Secretary of State to prepare Guidance for the NHS on reducing excess winter deaths and morbidity, and the health risks associated with cold homes. The Guidance would 'aim to define the systems required for an integrated approach to identification of risk and vulnerability and the provision of effective interventions (including insulation, fuel tariffs, uptake of benefits and heating improvements)'.

As well as better health, the win-win outcomes for all agencies from better co-ordinated local action on fuel poverty can include:

- Earlier identification of vulnerable people known to health professionals but whose fuel poverty has not been identified,
- Reduced pressure on beds and NHS resources

Action can reduce health inequality, save carbon, provide employment and free up income.

# Appendix 1

## Convergence of government and regulatory initiatives to assist off gas grid consumers – additional points

### Regulation

Off gas grid households do not receive the same level of consumer protection that is afforded to gas or electricity customers. Whilst we recognise the work of Trading Standards in terms of such issues as inaccurate pricing, it still does not afford the same level of protection as the regulator. FPAG would like to see greater regulation of the off grid market, whether from Ofgem or a specific body to consider off gas grid fuels.

The advent of Ofgem’s new DNO regulatory consultation RIIO-ED provides a unique opportunity to explore the role Distribution Network Operators could contribute in both the social issues and fuel poverty agendas. In this respect, FPAG congratulates Ofgem on its recent proposals to look at the socialisation of network reinforcement costs regarding the installation of low carbon heating such as heat pumps particularly off the gas grid, until smart meters are fully rolled out.

### Priority Services Register

FPAG is concerned with other comparisons to gas and electricity supply. For example, heating oil suppliers do not have a register of their vulnerable customers to ensure they are protected during periods of harsh weather.

In addition, where households are unable to afford the higher prices of off-grid fuels and are in effect self disconnecting their heating source, these people are not being identified and are going without or rationing heating during harsh weather.

In 2011, the Federation of Petroleum Suppliers (FPS) established a code of practice (COP) for its members to help protect vulnerable consumers.<sup>46</sup> However, the COP only applies for periods of “abnormal weather/supply commitments”, FPAG consider that the scope of the COP should be extended throughout the year to provide greater protection for vulnerable households. FPAG would recommend the FPS work closely with consumer organisations such as Consumer Focus or Citizens Advice in the development of such a COP.

### The Warm Home Discount

The Warm Home Discount scheme is paid to an eligible household’s electricity bill, recognising that those not connected to the gas grid also require assistance. FPAG agrees that this is the best way to provide price support to off grid households as the cost of the scheme is spread across a larger customer base and targeted at low income households. If heating oil suppliers were to provide a social tariff, they would have a much smaller customer base to spread the cost and therefore all bills would rise disproportionately to the benefit of a few. However, heating oil suppliers should be encouraged to raise awareness of energy efficiency schemes and programmes.

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<sup>46</sup> <http://bit.ly/U9ThhC>



## Winter Fuel Payments

FPAG supports the current Private Members' Bill that households off the gas grid should receive their Winter Fuel Payments earlier in the year;<sup>47</sup> this would enable consumers of heating oil, LPG and solid fuels to purchase their fuels earlier in the year and stock up in time for winter.

## Government Policy

The current Warm Front scheme provides additional funding for households off the gas grid to account for the expensive cost of infrastructure required to install an energy efficient heating system in a household off the gas grid. The forthcoming ECO does not contain specific provisions for households off the gas grid, there is, therefore, concern that households with more complex requirements, such as those off the gas grid, may miss out on the assistance they require.

Ofgem is working with gas distribution companies to extend the gas network and connect around 80,000 fuel poor households to the gas network. This forms part of the gas distribution price control which is expected to deliver around £7 billion of investment, between 2013 and 2021.<sup>48</sup>

Whilst we welcome this work by Ofgem and the gas distribution companies, greater impetus is required to help fuel poor households access renewable technologies, ensuring a long term sustainable reduction in their energy bills.

FPAG welcomes, albeit a modest proportion of ECO, which will be spent improving the energy efficiency of low income communities and in particular the 15 per cent that will be spent in rural communities.<sup>49</sup> FPAG has long argued that a community based, street by street approach is the most effective way of improving the housing stock across the England, we therefore hope that the current proposal is something that can be built on further in the future through Carbon revenue.

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<sup>47</sup> <http://bit.ly/T0Ti8N>

<sup>48</sup> <http://bit.ly/VLtMZC>

<sup>49</sup> <http://bit.ly/SRgYhi>

## Appendix 2

### Membership of the Fuel Poverty Advisory Group:

- Derek Lickorish                      Chair
- Teresa Perchard                      Vice Chair

### Member Organisations:

- Age UK
- Association for the Conservation of Energy
- British Gas
- Carillion Energy Services
- Child Poverty Action Group
- Citizens Advice Bureau
- Consumer Focus
- EDF Energy
- Energy Efficiency Partnership for Homes
- Eon UK
- Local Government Association
- National Energy Action
- National Grid
- National Heart Forum
- RWE NPower
- Scottish and Southern Energy
- Scottish Power

## Appendix 3

### Terms of Reference

**The Fuel Poverty Advisory Group is an Advisory Non-Departmental Public Body sponsored by DECC. Its primary task is to report on the progress of delivery of the Government's Fuel Poverty Strategy and to propose and implement improvements to regional or local mechanisms for its delivery.**

The role of the Group is:

- To consider and report on the effectiveness of the current policies in delivering reductions in fuel poverty and the case for greater co-ordination;
- To identify barriers to the delivery of reductions in fuel poverty and to the development of effective partnerships, and propose solutions;
- To consider and report on any additional policies needed to deliver the Government's targets;
- To enthuse, and encourage, key players to tackle fuel poverty;
- To consider and report on the results of the work to monitor fuel poverty.

As will be seen, the Group consists of a wide range of organisations with different views and this is one of its strengths. On many of the issues there is a very large measure of agreement. On others especially EEC and energy prices there are more differences and the views in this report do not always therefore reflect the views of individual members.

