



# Response to Building a market for energy efficiency: Call for Evidence

## Response State of the Market

### **2 What information do you have on the remaining potential for energy efficiency improvements and what savings could be expected from these measures?**

The Committee on Fuel Poverty is a non-departmental Government Body that reports to the Department of Business Energy and Industrial Strategy (BEIS). We welcome the opportunity to provide input into this Call for Evidence. The Committee on Fuel Poverty:

- monitors and reports on progress of the Government's Fuel Poverty Strategy for England
- supports and challenges the Government on delivery
- encourages and fosters a partnership approach between Government and stakeholders
- works where appropriate with the Committee on Climate Change.

The BEIS Fuel Poverty Statistics for England published in 2017 report the number of households in fuel poverty has increased from 2.38 million in 2014 to 2.50 million in 2015 (the statistics provide data on a two-year time lag). The average fuel poverty gap (this is the average additional amount that fuel-poor households need to spend to meet their energy needs, compared to the national median spend) has only fallen £18 per year from £371 to £353.

Households in fuel poverty cannot afford to heat their homes to comfortable levels and this impacts on their health and wellbeing. Government's fuel poverty strategy for England has a target to raise the energy efficiency Band level of as many fuel poor homes as is reasonably practicable to Band C by 2030. This will sustainably reduce the energy needs of households in fuel poverty and make them affordable to heat. There are interim milestones of as many fuel poor homes as is reasonably practicable to Band E by 2020 and Band D by 2025. Improving the energy efficiency of homes is therefore fundamental to delivering the fuel poverty strategy for England.

We note that this Call for Evidence is focused on privately owned properties. 42.3% (1.06 million) of households in fuel poverty live in privately owned properties (see BEIS Fuel Poverty Statistics, Detailed Tables 2017 (2015 data) Table 16). Less than 10% of these privately owned properties achieve an energy efficiency rating of Band C or better (see BEIS Fuel Poverty Statistics, Detailed Tables 2017 (2015 data) Table 16). Any new legislation or regulations introduced as a result of this Call for Evidence on the role of Government in overcoming barriers and stimulating the household energy efficiency market through more direct

interventions, must ensure that these 1.06 million householders in fuel poverty receive the assistance they require to upgrade the energy efficiency of their homes. By definition, these households have very low incomes and levels of savings and therefore do not have the disposable income necessary to install the energy efficiency measures required to bring their properties up to Band C. When improving the energy efficiency levels of households in fuel poverty, there are clear health and wellbeing benefits for the householders as they are then able to afford to heat their properties to more comfortable levels. Improved health and wellbeing result in savings for health and social care budgets. In Public Health England's Cold Weather Plan for England, 2015 it states:

- There are around 25,000 excess winter deaths each winter in England. The number of extra deaths occurring in winter depends on temperatures, levels of disease (particularly influenza) in the population and other factors.
- Cold weather deaths are mostly preventable and although largely related to cardiovascular and respiratory diseases, there are deaths due to hypothermia, carbon monoxide poisoning, influenza, and falls and injuries. Preventative measures such as increasing energy efficiency in the home through installing insulation and efficient heating systems can have health benefits.

Cold homes impact the health and wellbeing of all ages of householders. Children suffer increased absence from schools, fail to reach their full growth potential and suffer higher incidences of mental health problems. Adults face an increase in mental health problems and health problems related to cold homes can increase the number of days they are off sick from work. Pensioners (particularly those over 75) face the highest risks from cold homes. They may already be suffering from pre-existing chronic illnesses which are exacerbated by cold and they also spend the most time in their homes.

By improving the energy efficiency of households in fuel poverty, it makes the homes more affordable to heat to comfortable levels. The resultant social benefits and financial savings in health and social care budgets should be included when evaluating Government legislation and regulations for household energy efficiency.

#### **4 Do you agree that it makes sense to prioritise those groups most likely to be open to investing in energy efficiency? And do you agree with our assessment of who those groups are most likely to be?**

No, we do not believe that it makes sense to prioritise those groups most likely to be open to investing in energy efficiency. We firmly believe that priority and assistance should be given to those in most need who do not have access to funds to carry out energy efficiency improvement works in their properties. Support from programmes such as ECO and the Renewable Heat Incentive should be focused on and open to those in most need.

Whilst for the broader group of private property owners, it is logical to prioritise those groups most likely to be open to investing in energy efficiency, we strongly believe that this should not be at the expense of ensuring that the private property owners who are in fuel poverty receive the assistance necessary to upgrade the energy efficiency levels of their properties in line with the 2020/25 fuel poverty milestones and 2030 target. The current situation where those who are willing

and able to pay receive Government assistance and subsidies for installing renewable heating, whilst those who are poor are excluded from such programmes, needs to be addressed.

## **Barriers to market growth**

### **5 Do you agree with our assessment of the current barriers to market growth?**

To date, there has been a lack of finance available to deliver the fuel poverty strategy for England. As additional streams of third party finance are made available for installing household energy efficiency measures, care should be taken to ensure that any costs of financing which are attached for repayment via the meter, still leave the householder in a position of being able to afford to heat their homes to comfortable levels. This will help move away from relying on measures that simply reduce bills in the short term.

To improve the confidence of householders in the energy efficiency marketplace, it is vital that the recommendations made in the Each Home Counts review - An Independent Review of Consumer Advice, Protection, Standards and Enforcement for Energy Efficiency and Renewable Energy in the UK, are quickly implemented.

## **Proposed approach**

### **10 Do you agree with the set of proposed principles for guiding our approach?**

We recommend that two additional guiding principles should be added to ensure that those most in need receive the necessary assistance to improve the energy efficiency levels of their properties and that vulnerable householders are protected:

- a. Prioritisation of the most severely fuel poor: through the fuel poverty gap, the Low Income High Costs indicator allows us to distinguish between fuel poor households on the basis of the severity of the problem they face. Households living in severe fuel poverty – those with the highest fuel poverty gaps – face the highest costs of maintaining an adequate level of warmth in the home. They also face some of the starkest trade-offs between heating the home and spending on other essentials.

- b. Reflecting vulnerability in policy decisions: we know that some fuel poor households are more at risk from the impacts of living in a cold home than others, even if they are not necessarily the most severely fuel poor. It is right to consider the particular needs of the vulnerable as we improve homes.

## **Developing new methods for financing energy efficiency**

### **13 Is there evidence to suggest that any other fiscal levers not described here could drive consumer demand?**

The Winter Fuel Payment (WFP) programme provides pensioners with an annual tax free payment of between £100 and £300 to assist them to pay their energy bills. The Warm Home Discount (WHD) programme provides qualifying households with an annual £140 discount off their energy bills. Both of these programmes are poorly targeted on helping households in fuel poverty. We estimate that less than 10% of the combined £2.07 billion per year of WFP and WHD budgets for England is received by households in fuel poverty. The Committee on Fuel Poverty has recommended that these budgets should be far better targeted towards helping fuel poor households. Better targeting would both provide assistance to those most in need to help pay their fuel bills and could also fund the installation of energy efficiency measures in their homes. This would help drive the energy efficiency marketplace in a way that is not regressive.

The £1.8 billion per year WFP programme is paid out to 7.4 million pensioner households of whom only 550,000 are in fuel poverty. Pensioners have a median equivalised after housing cost income of twice the level of those in fuel poverty. Pensioner groups had a median equivalised After Housing Cost (AHC) income in 2015 of between £20,867 and £20,989 per year (reference BEIS Annual Fuel Poverty Statistics Report 2017). This compares to the £10,118 median equivalised AHC income of households in fuel poverty, only 20% of whom receive a WFP. However, despite the difference in median incomes, it should be recognised that WFP and WHD programmes are also reaching millions of pensioner households that are on low fixed incomes.

### **14 What would be the profile of homeowners likely to take up these different incentives?**

To date, there has been a lack of finance available to deliver the fuel poverty strategy for England. Additional financial assistance to households in fuel poverty living in privately owned properties is required, but assistance must result in both improving the energy efficiency levels and lowering energy bills (including any finance repayments attached to the meter) over the long term. Care should therefore be taken to ensure that any costs of financing energy efficiency measures which are attached for repayment via the meter, still leave the householder in a position of being able to afford to heat their homes to comfortable levels. We believe that the Green Deal Framework may have a useful role to play in attracting third party capital to the energy efficiency market, however we have concerns about potential issues that could arise if applied to those in Fuel Poverty. These issues are as follows:

- 1) The Green Deal Assessment is based upon a defined set of SAP scores which assume average usage. For those in Fuel Poverty there could be the risk that they are underheating their homes and therefore the Actual Usage maybe below the Assumed Average, this would mean that the savings under the Golden Rule could be inaccurate. We recommend that there is a study of Actual historical usage and that the Golden Rule is run against the lower of Actual and Assumed.
- 2) There is multiple consumer protection in place, the Green Deal Provider Regulations, the FCA regulations and impending regulations that should flow from

the Every Home Matters Report. Under existing FCA regulations, the GDP is required to carry out an affordability check, however we remain concerned that creating a high fixed debt on the meter may push more people into fuel poverty unless the savings are accurately calculated. We therefore would recommend that Green Deal Plans are not sold to people using less than 2,100 kwh (as the savings are unlikely to meet the Golden Rule) unless there are some additional funding from either ECO, Councils or some other grant, which makes the saving at least 10% below the Golden Rule based upon Actual usage in the last 12 months.

### **37 What changes should be made to the Energy Company Obligation to ensure that it supports the development of innovative energy products and services?**

The Energy Company Obligation (ECO) should not be used as a primary vehicle for supporting the introduction of innovative products and services.

It is vitally important that Government continues to improve the focus of the ECO programme on delivering energy efficiency measures to households in fuel poverty. Currently only approximately 30% of the ECO funds are spent on households in fuel poverty. Whilst it is important to promote the development of innovative approaches to energy efficiency, ECO is not the best vehicle to use to achieve this. Government has committed to improve the focus of the ECO scheme on delivering energy efficiency measures to households in fuel poverty and these households may not be the best to target with innovative schemes, as they may lack the understanding of the risks involved.

If separate new schemes are introduced to stimulate the introduction of innovative energy efficiency measures to the marketplace, schemes should be designed so that they are available to both those who are able to pay, as well as those who are unable to pay up-front capital investments. The unfair situation of the Renewable Heat Incentive scheme only being available to wealthy homeowners should not be repeated.

### **Improving data to open up the market for investment**

### **38 Are there other ways that Government could help improve access to data on energy efficiency and performance of homes for research purposes?**

The ability to identify the addresses of households in fuel poverty is critical to success for delivering the fuel poverty strategy – both in reaching those in need but also doing so as cost-effectively as possible. Using the Digital Economy Act 2017 to enable data sharing for tackling fuel poverty is critical to enable significantly improved targeting of energy efficiency support for fuel poor households.

As well as identifying eligible households, data from BEIS's National Energy Efficiency Database could also be overlaid. This would provide some information on whether, and what, measures have already been installed in properties, potentially providing Energy Company Obligation suppliers and their scheme managers with helpful information for more refined and cost effective targeting of assistance to households in fuel poverty.