



CFP Proposal for Fuel Poverty Challenge Funding from BEIS/Treasury January 2019

1. Challenge Summary

The Committee on Fuel Poverty (CFP) believe that the existing policies, programmes and resources will not enable the Government to meet its 2020/25 milestones and final 2030 target for its fuel poverty strategy for England.

The CFP has recommended that existing budgets to tackle fuel poverty should be better spent to deliver the goals of the government's strategy, principally by refocussing Winter Fuel Payments on those most in need. As the government has chosen not to redirect existing resources, new funding must be provided. This proposal is for a new £1.08 billion Treasury-funded household energy efficiency programme 'Challenge Fund' to run from April 2020 to April 2022. The fund will complement ECO3 and PRS to fill the short-term gap to meet the fuel poverty 2020 milestone and accelerate progress towards the 2030 target. It will also:

- Encourage innovation and develop learning for successor programmes that will be required to meet the 2030 target.
- Utilise the new data sharing powers from the Digital Economy Act to develop new proxies for targeting fuel poverty; and
- Guarantee progress against the Clean Growth Strategy aspirations of improving fuel poor households to a Band C by 2035.

2. Background

The Government has a statutory target to improve the energy performance of fuel poor households in England to Band C by 2030 (as far as reasonably practicable). This target was included in a revised Fuel Poverty Strategy, reiterated in the Conservative Party manifesto before the last General Election, as well as the Government's Clean Growth Strategy and linked to the Clean Growth Grand Challenge in the Industrial Strategy. England is the only country of the UK where there is no public funding to deliver national fuel poverty targets.

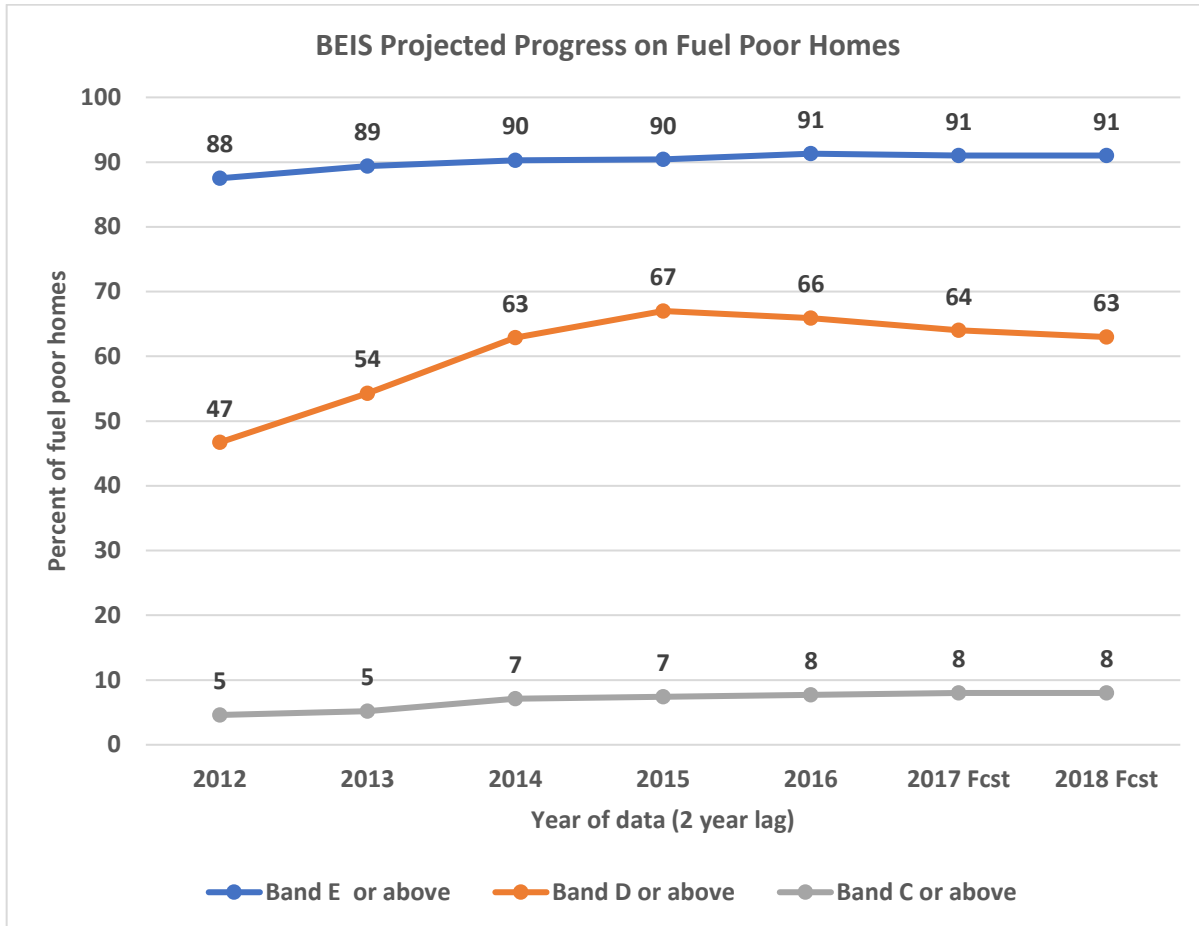
The statutory Fuel Poverty Strategy also set interim milestones to ensure that fuel poor households are improved to a minimum of:

- Band E by 2020
- Band D by 2025

These milestones work with a key principle set out in the strategy, to prioritise support on the worst levels of fuel poverty – known as 'worst first'. Fuel poor households living in a home which is F or G rated face an average fuel poverty gap in excess of £1000/year which is over three times the average fuel poverty gap of £326/year. This results in hardship and suffering for households in vulnerable situations and creates a strain on local services including the NHS.



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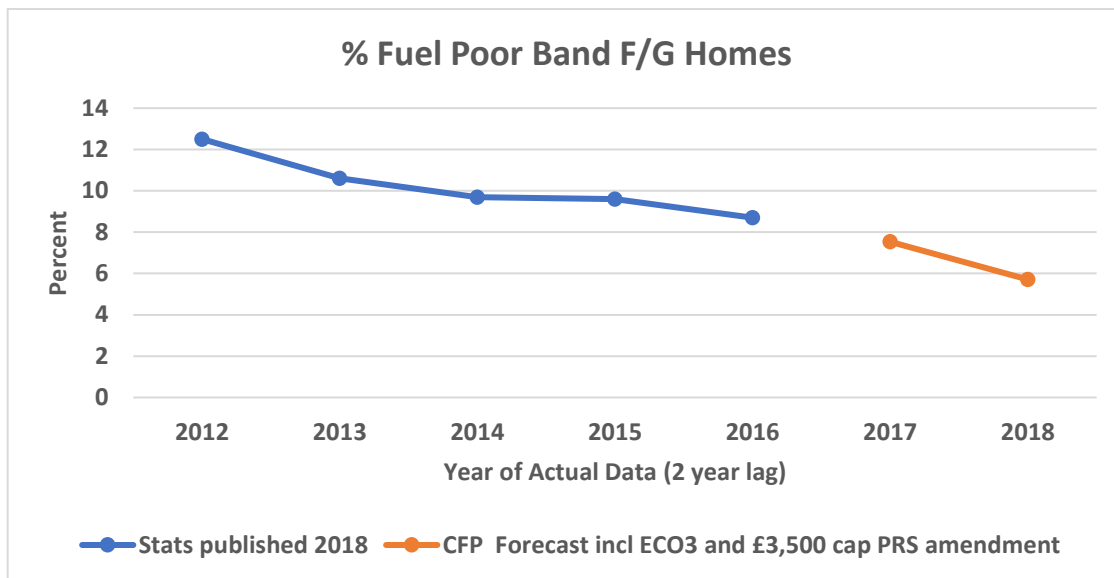
The 2018/22 Energy Company Obligation (ECO3) will be focused entirely on low income households and those receiving non-means-tested disability-related benefits from 2018 to 2022, and whilst this is generally welcome, the scheme eligibility is wide, with an eligible group of nearly 7 million lower income households. There is no specific ringfence for E, F or G rated properties and this broad market mechanism is not well suited to targeting the remaining 222,000 fuel poor F&G rated homes in England or those unable to make a financial contribution towards the measures.

Around half of the fuel poor F/G properties with the lowest energy performance are found in the private rented sector. New Private Rented Regulations (PRS) are in place requiring private landlords to bring their properties up to a minimum standard of Band E by 2020 for both new and existing tenancies. Private landlords claim that they cannot afford the cost of improving their properties without financial incentives and Government has announced that a 'cost cap' will be set at £3500 to require landlords to improve the performance of their inefficient homes. Government expects that 48% of privately rented properties will be improved to a Band E.



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The CFP have estimated that even with PRS and ECO3, just over a half of the fuel poor F/G properties existing at the start of the strategy will have been upgraded by 2020. Therefore, without additional programmes, the 2020 milestone will be missed with many families continuing to live in sub-standard properties without access to modern levels of comfort.



Fuel poor F/G homes have a high level of vulnerable people and are predominately 'hard to reach' or 'hard to treat' homes:

- Main fuel type 58% electricity
- 80% solid wall properties
- 33% dependent children, 40% someone over 60
- 60% have no central heating
- 34% of all F/G properties are in rural areas- villages, hamlets and isolated dwellings with an average fuel poverty gap of £1,325/year
- 68% have no gas grid connection

3. Proposal

A new £1.08 billion Treasury-funded household energy efficiency programme is proposed to achieve the 2020 fuel poverty milestone and help meet other Government objectives. The four main objectives are:

a) Assist to meet Government targets and aspirations to improve household energy efficiency levels:

- Meet the shortfall in resources to meet the 2020 Fuel Poverty Strategy milestone;
- Make additional progress towards achieving the 2030 fuel poverty target;



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- Commence achieving the aspiration for all homes to achieve Band C by 2035 as set out in the Clean Growth Strategy;
- Unlock investment from different parties - this will also assist to demonstrate how blending funding can lead to wider government goals of healthy ageing, reducing pressures on the health service and overall carbon reduction.

b) Identify options for successor programmes to ECO beyond 2022 as set out in the Clean Growth Strategy.

c) Reduce the cost of energy efficiency programmes:

- Test new data sharing powers enabled by the Digital Economies Act by piloting how new data sharing powers can be implemented to better target assistance and reduce administrative costs.

d) Introduce innovative technologies and approaches to delivery methods to secure supply chains for whole house solutions. Particular areas of focus are:

- Rural properties and the need to phase out heating oil in the 2020's as outlined in the Clean Growth Strategy;
- To help deliver the Industrial Strategy, the Prime Minister set out the Buildings Mission which included a commitment to halve the cost of retrofit to the standard of new build properties. This policy could trial the type of deep retrofit that may be required to retrofit homes to near new build standards, building the supply chains that will be required to deliver the Buildings Mission.

The CFP is proposing that whilst the principle of helping the 'worst first', lessons from other schemes such as NEST in Wales, must be applied. NEST originally targeted only F and G rated properties, but this increased marketing costs and made delivery difficult. It is therefore proposed to include Band E characteristics which will also need to be assisted by 2025 and use this fund to work towards 2020 and 2025 milestones. There are 648,000 fuel poor Band E properties. Support will be provided to households where ECO is not a suitable vehicle

The Challenge Fund will be primarily aimed at assisting to upgrade the energy efficiency of privately-owned properties. These make up half of fuel poor F/G properties. However, this proposal will also be used to increase the percentage of privately rented homes to achieve at least Band E and also help many properties achieve a Band D standard.

The Challenge Fund will build on good practice during ECO LA Flex for effective engagement and local delivery strategies where funding for coordination and targeting at a local level remains a challenge. Lessons can be learnt from other programme delivery such as the Warm Homes Fund, the Health and Innovation Programme and the Warm Front programme.



4. Outcomes, Outputs and Objectives

Output areas	Activity	Performance Indicators	Outcomes
Identify effective methods of meeting EPC Band C and improving household engagement to achieve warm and healthy homes	Design engagement strategies to encourage households and third parties to improve their understanding and impact of energy efficiency services	Household evaluation shows high levels of satisfaction and no upfront client contribution is required	A range of appropriate energy efficiency measures delivered to these households to bring their properties up to Band E minimum with the aim of reaching Band D and C through a mix of measures through a single intervention and effective engagement
Unlocking Investment	Local partners produce plans which show how Challenge Fund funding will be blended with landlord contributions, ECO, and third-party contributions e.g. energy network companies and test additionality	Wider range of properties receive measures, Government led funding extended to third party blended finance	More of the worst properties meet the milestones faster, greatly improving residents' quality of life
Effective Data sharing	Identify more sophisticated proxies for fuel poverty than relying on welfare benefits. Use data sharing to better identify households in Band E, F and G properties at a local level	Illustratable cost savings over existing methodology Clusters of hotspots where fuel poor households are likely to live are identified through local consortia	Faster progress to meet the milestones with more money spent on measures and less on identification
Meeting resource gaps	Additional funding to keep Government progress towards milestones on track	Volume of E, F and G rated houses treated	2020 milestone achieved and programme improvements identified to contribute towards 2025 milestone



Wider outcomes include:

- Contributing to local authority carbon budgets and air quality targets;
- Delivering against the healthy ageing agenda;
- Developing linkages between social obligations of the energy industry with local authority social care and other duties;
- Cost savings to the NHS as cold related illnesses and winter demands would be reduced;
- RIIO 2 will start in 2021-23 and energy network and transmission companies will be consulting on their social obligations from 2018-2021. There is an opportunity to investigate how potential new obligations to protect vulnerable customers could be linked to the Fuel Poverty milestones beyond the existing fuel poor network extension incentive.
- Creation of local employment
- **Contributing to the Clean Growth Strategy and wider policies**

The Clean Growth Strategy highlights the need to improve all UK housing to EPC Band C by 2035 but new mechanisms will be required to ensure that this ambition can be cost-effectively achieved. Furthermore, cost effective ways to phase out the use of heating oil in homes in the 2020's will also need to be developed. New approaches to energy efficiency retrofit programmes will be needed and lessons can be learnt from this Challenge Fund.

To help deliver the Industrial Strategy the Prime Minister set out the Buildings Mission which included a commitment to halve the cost of retrofit to the standard of new build properties. This policy could trial the type of deep retrofit that may be required to retrofit homes to near new build standards, building the supply chains that will be required to deliver the Buildings Mission.

Cost savings to the NHS as cold related illnesses and winter demands would be reduced and options are explored on how to meet heat decarbonisation/reduction goals.

5. Innovation

Innovation will be a key element of the Challenge. This will be through the design of the local strategies; the methods of targeting and engagement (e.g. can tenancy change/change of property processes automatically build in energy efficiency renovations, and how do we include HMOs in programmes), and the types of products installed to bring a whole house solution. There would also be links forged to learn lessons from other Innovation incentive programmes though the Energy Systems Catapult, Innovate UK, the proposed National Infrastructure energy efficiency programme for social housing providers, and others. Given that 80% of the fuel poor F/G homes are solid walls, there is also an excellent opportunity to utilise innovation to find low cost solutions to these challenging properties. In addition, there is a big challenge to find low cost solutions to phase out the use of heating oil and innovation can play a key role.



6. Funding

The funding will match the nominal annual £540m ECO funding for England from 2020-2022.

A total of £1.08b will be required from Treasury starting April 2020, of which a small percentage will be to support the development of local plans, data matching trials and evaluation, but at least £1b will be for energy efficiency installations (cost of product, essential basic renovation work where disrepair would be a barrier to energy efficiency and installation of measures).

7. Success Factors

- Blueprint for successor scheme to ECO3 post 2022 which combines different funding sources and demonstrates cost effective solutions to meet the 2025 fuel poverty strategy milestone as well as delivering the 2020 milestone as far as is reasonably practicable;
- Up to 50 strategic local fuel poverty delivery plans and partnerships that cover the whole of England but focus in on clusters of the worst properties;
- Over 200,000 households are taken out of the deepest level of fuel poverty with a target improvement to EPC Band E, and up to a further 100,000 households assisted towards Band D where additional funding can be levered from landlords;
- The overall fuel poverty gap in England is reduced;
- New technologies and more effective energy efficiency services become mainstream;
- Minimum energy efficiency standards of Band E in private rented properties are achieved where the costs are in excess of the £3,500 maximum landlord contribution in the Private Rented Sector Regulations.

8. Challenge Delivery and Management

It is proposed that the Fund would be administered by a national scheme manager on behalf of BEIS who would also commission a monitoring and evaluation service. There are options for how the funding would be awarded and BEIS will wish to consider cost effective routes to ensure local consortia/partnerships, are able to bring together interested parties and help drive and coordinate activities within their localities and are adequately resourced to do so.

Criteria for funding would be based on clear expected outcomes. Local partnerships would be the recipients of the flexible funding for measures installed in private housing under two strands: home owners and private landlords:

- Local private landlords are fully engaged and approximately 20% of funding is awarded to the private-rented sector (reflecting the tenure mix in different areas) for measures required to meet EPC Band E costing more than the Government cost cap, and to reach a higher EPC standard.



- Privately Owned. Specific criteria will be developed during a consultation process but for example properties with council tax bands A, B or C may be eligible but higher council tax banded properties would require additional eligibility criteria based on vulnerability. Home owners at point of sale or purchase as well as those planning to live in their properties into older age that may need adaptations as incomes drop and mobility decreases; and where residents are known to be vulnerable. It is also proposed that since many of the target homes will not have an EPC, any scheme should focus on the characteristics of the property, for example solid wall, off the gas grid, no central heating.

9. Timescales

Broad timelines:

- 2019 - Announcement of Challenge Fund in Spending Review. More detailed scheme design undertaken and consultation exercise, including range of measures to be included; how data could be shared. Appointment process for national scheme manager;
- 2020 - First Challenge Fund open for bids and successful bids announced. Delivery of measures and monthly monitoring reports commence;
- 2021 - Further funding bids and continuation of delivery and monitoring;
- 2022 - Evaluation reports completed.

10. Monitoring and Evaluation

Successful local authority consortia/partnerships will be required to complete monthly reporting schedules and agree to comply with an evaluation process (including client feedback, providing analysis and comment). This would allow early lessons to be shared with Government and their stakeholders to develop a successor scheme to ECO and identify new effective and efficient approaches.

Referral agencies, particularly in the health sector have expressed concern that a clear pathway and guaranteed support, irrespective of tenure, is required for energy efficiency programmes and this is another aspect that is addressed by this proposal.