



Committee on
Fuel Poverty

Committee on Fuel Poverty

Interim Report

July 2021



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July 2021 Interim Report

The Committee on Fuel Poverty (CFP) are an advisory Non-Departmental Public Body sponsored by the Department for Business, Energy & Industrial Strategy (BEIS). We monitor and provide independent, expert advice on Government's strategy to improve the energy efficiency of fuel poor homes in England to make them more affordable to heat.

In this report we assess the progress towards delivering the 2025 fuel poverty Band D milestone and 2030 Band C target and focus on making recommendations for the design on programmes/regulations that are currently under consideration to accelerate progress.

Note: as our remit is only for England and some government programmes are GB or UK wide (e.g. Energy Company Obligation), our recommendations apply only to the portion of programme budgets that apply to England.

Our annual report will be published in Autumn 2021, and will cover wider issues associated with fuel poverty, in particular the need to ensure a fair transition to Net Zero, and that the impact of the transition on those in fuel poverty is clearly costed. We will also look at the structure and affordability of energy prices in particular, the increasing fixed elements of the bill and whether this could disproportionately impact those in fuel poverty. It is expected by that time that the Heat and Buildings Strategy will be published which will provide greater detail on the transition to a low carbon heating system.

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Introduction

The fuel poverty strategy for England was originally published in 2015 *Cutting the Cost of Keeping Warm* and has recently been revised in the publication *Sustainable Warmth – Protecting Vulnerable Households in England*. The main change was to adopt a new metric for how a household should be considered to be fuel poor. The new measure is called Low Income, Low Energy Efficiency (LILEE) and is defined as a household meeting the two criteria of:

- Low Income – having a residual income below the poverty line (after accounting for the required fuel costs to heat and run the home) and
- Lives in a home that has an energy efficiency below Fuel Poverty Energy Efficiency Rating Band C

In this report, we are tracking progress and making recommendations based on the new LILEE metric. Adoption of the LILEE metric has not materially changed the number of fuel poor households living in Band E, F or G homes, but it has increased the number of households living in Band D homes who are considered fuel poor by 1.14 million. The cost to deliver the fuel poverty strategy will therefore increase.

This is a key moment for those 3.2 million households still suffering from fuel poverty. The government is currently considering how to improve the next phase of its fuel poverty alleviation and aligned programmes and regulations. We want to acknowledge that government has both embraced the principle that improving the energy efficiency of buildings is essential to achieving net zero carbon emissions and has taken considerable positive steps in planning to provide additional funding since the last report, including the expansion of the Energy Company Obligation and Warm Home Discount, the provision of Green Homes Grant and initial funding of the Social Housing Decarbonisation Fund and the Home Upgrade Grant programmes. Furthermore, there has been a consultation proposing to extend the Minimum Energy Efficiency Standards for the Private Rented Sector (PRS MEES) to EPC Band C by 2028.¹

We welcome these initiatives and recognise the significant contribution they could make to accelerate progress towards the 2030 Band C target. However, we are concerned that there is a risk of missing the 2025 fuel poverty strategy Band D milestone as the design of programmes have yet to be finalised, there are delays in approving longer term funding for government funded programmes and the proposal for the PRS MEES will not start to have a significant impact until after 2025.

We have therefore written this report to make recommendations that would help ensure that the policy and programme refresh achieves the government's **2025 fuel poverty energy efficiency rating (FPEER) Band D milestone** and accelerates progress towards their **2030**

¹ Improving the Energy Performance of Privately Rented Homes in England and Wales: <https://www.gov.uk/government/consultations/improving-the-energy-performance-of-privately-rented-homes>

Band C target, whilst also addressing the wider social and environmental policy goals associated with some of the programmes and their deliverability. We believe that our recommendations strike the right balance between (i) ensuring that the 2025 fuel poverty Band D milestone will be achieved and (ii) the need for time to be taken to ensure programmes/regulations are effectively developed and can be successfully implemented.

We believe that the recommendations for long term funding and regulations made in this report will also substantially help to develop a robust supply chain in household energy efficiency improvements that will also contribute towards achieving the Net Zero commitments.

Key Message 1: Missed opportunities and what we can learn

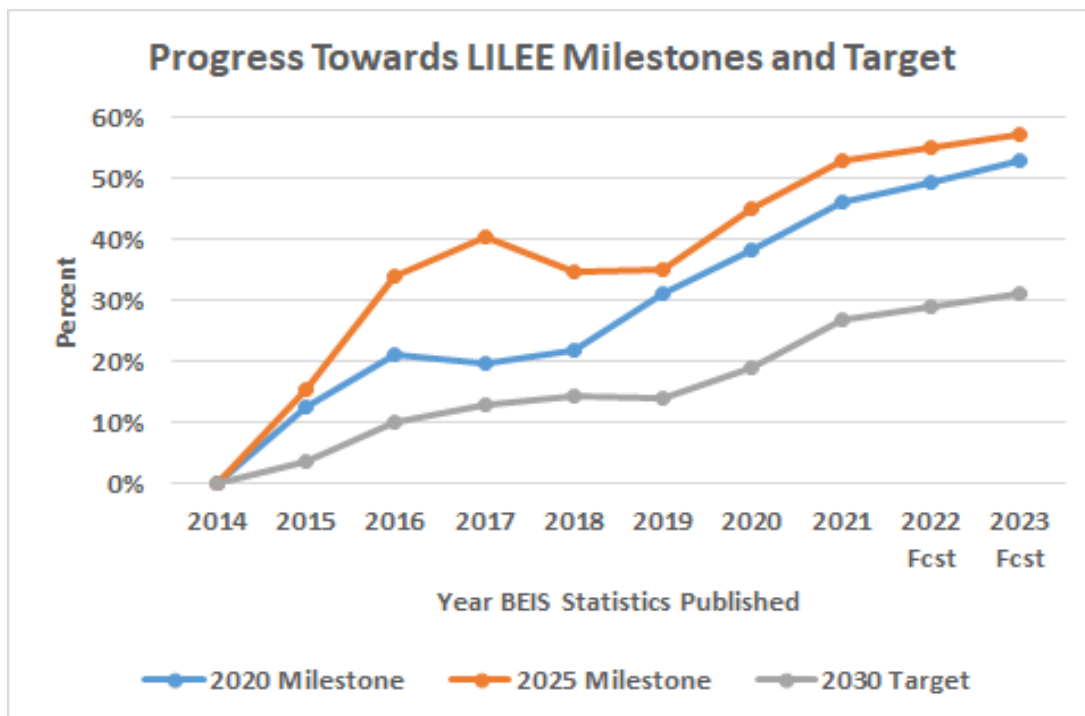
The Committee's focus is on measuring progress towards the 2020 FPEER Band E milestone, 2025 Band D milestone, and 2030 Band C target and recommending programmes and regulations to close any gaps. We measure progress against the fuel poverty statistics published in 2014 which were the latest figures available at the time the *Cutting the Cost of Keeping Warm 2015* fuel poverty strategy² was published. Revisions to the fuel poverty statistics are published by BEIS each year. The statistics are based on a two-year lag so, for example, the statistics published in 2021 are based on actual data from 2019. The published statistics also contain a projection for the next two future years (e.g. the statistics published in 2021 contain projections for 2020 and 2021).

We measured success for achieving the 2020 milestone against the statistics and projections published in 2020 (based on 2018 actual data). If we waited for actual data before judging whether the 2020 milestone had been met, it would mean that we would have to wait for two years to pass, before success could be judged (e.g. wait for statistics published in 2022 to judge whether the 2020 target had been met).

Given the recent update of the fuel poverty strategy, the Committee on Fuel Poverty have also adopted the new **Low Income Low Energy Efficiency (LILEE)** metric to track progress.

Figure 1:

² Fuel Poverty for England: cutting the costs of keeping warm, 2015:
<https://www.gov.uk/government/publications/cutting-the-cost-of-keeping-warm>



Source: Committee on Fuel Poverty

As can be seen in the Committee on Fuel Poverty projection above, the 2020 FPEER Band E milestone has been missed. The latest publication of fuel poverty statistics confirms our 2020 Annual Report prediction that only about a half of the 293,000 Band F/G fuel poor homes at the start of the 2015 fuel poverty strategy³ have been upgraded to Band E or above by 2020.

Although there were more than sufficient funds available to deliver the 2020 milestone, only between 10% and 30% of programme budgets are currently received by **fuel poor** households. Furthermore, a very small percentage of the funds focused on the fuel poor, were aimed at those in the deepest levels of fuel poverty - *please note that as data is not yet available as to how the new LILEE metric will change the targeting efficiency of existing programmes on fuel poor households, we still quote targeting efficiency based on the old **Low Income High Cost (LIHC)** metric*. Insufficient progress was made to re-focus available funds and programmes to improve the energy efficiency of **fuel poor** homes or to assist **fuel poor** households to afford to pay their energy bills. Government manifesto commitments restricted the opportunity to refocus the £1.7 billion per year DWP led Winter Fuel Payments budget. Also, the ECO3 programme eligibility was refocused on lower income households with eligibility linked to **receipt of means tested benefits**, with some wider flexibility determined locally. However, the revised eligibility criteria did not align with the definition of fuel poverty in England and has led to a misalignment of ECO resources.

It is also worrying that the government is only just over 50% towards achieving the 2025 Band D milestone and that future progress with **current programmes** is forecast to be slow. The current refresh of programme and regulation changes must therefore address **targeting**

³ Fuel Poverty for England: cutting the costs of keeping warm, 2015: <https://www.gov.uk/government/publications/cutting-the-cost-of-keeping-warm>

and **resources** to achieve the 2025 milestone and accelerate progress towards the 2030 target.

The fuel poverty strategy guiding principle of ‘Worst First’ (i.e. focusing assistance on those in the deepest levels of fuel poverty) **must** now be applied to the design of new and existing programmes to improve their focus on assisting fuel poor households. The current version of ECO did not apply this guiding principle when it was designed and therefore ECO3 is forecast to only upgrade circa 25,000 fuel poor Band F/G homes. This is the main reason for missing the 2020 milestone. Programmes and regulations should also be designed based on an approach of ‘fabric first’ i.e. install insulation and other energy efficiency measures to improve the energy performance of the home before any conversions are made to install new low carbon heating systems. If government programmes require renewable heating to be installed in a fuel poor home, the household must be protected from any potential increase in fuel bills. It would seem perverse if regulations allow other households to continue to install fossil fuel burning appliances which are often cheaper to run, while those with restricted incomes face higher running costs for renewable heating installed under a government fuel poverty programme.

In future, to substantially improve the ability to identify and therefore focus on fuel poor households, the eligibility criteria for programmes should be based on utilising a wide range of available income and housing data, together with advanced statistics and/or artificial intelligence modelling. This will require greater co-operation across different government departments. Previous work has indicated this to be viable and possible at a cost-effective level. The research carried out by us shows whilst many important issues have to be addressed, there are no substantive barriers to utilising advanced statistics and/or artificial intelligence in the design of government programmes.⁴

Local Authorities and third sector bodies have an important role to play to coordinate resources, and to identify and engage fuel poor householders. However, if given access to programmes such as ECO, the local authorities need to be adequately resourced and strong controls need to be put on them to ensure accountability and adherence to programme objectives. The ECO Local Authority Flexible Eligibility Flex programme (Flex) was set up to engage local authorities to identify (i) fuel poor households, especially those on low income and not in receipt of ECO eligible benefits and (ii) low income households that are vulnerable to the effects of living in a cold homes. Whilst supporting the scheme in principle, we have not seen any data to show that Flex is delivering against these two objectives. Furthermore, it is disappointing that a recent analysis identified that eight local authorities which have higher than average levels of fuel poverty, did not apply for funding through LAD and also did not make use of the ECO flex scheme.⁵ We therefore understand the plan to include Flex in the 2022 to 2026 version of ECO (ECO4), however a review of the effectiveness of the current ECO3 Flex needs to take place and appropriate adjustments made to its design, before the current monetary value of Flex (25% of circa £550 million per year) is increased in ECO4.

⁴ Better use of data and AI in delivering benefits to the fuel poor: research report and CFP’s recommendations: <https://www.gov.uk/government/publications/better-use-of-data-and-ai-in-delivering-benefits-to-the-fuel-poor-research-report-and-cfps-recommendations>

⁵ As yet unpublished National Energy Action research

Key Message 2 What we now have the opportunity to do differently

We strongly urge BEIS to calculate the funding required to deliver the LILEE 2025 fuel poverty strategy milestone and 2030 target and put in place the necessary programmes and regulations to deliver them.

This should include funding the energy efficiency measures in fuel poor homes that were recommended by the Committee on Climate Change (CCC) in their 6th Annual Budget⁶ (e.g. installing solid wall insulation on all fuel poor solid wall homes). The CCC estimated costs in the range of £9.2 to £16.1 billion for the old LIHC fuel poverty strategy. Costs to meet the revised 2020 *Sustainable Warmth Strategy* with the new LILEE metric will be higher as the number of fuel poor homes requiring energy efficiency improvements to reach FPEER Band C has risen by 58%, albeit the additional homes are mainly already FPEER Band D.

The latest fuel poverty statistics show that only just over a half of the fuel poor FPEER Band E/F/G properties existing at the start of the fuel poverty strategy have been upgraded to Band D or above.

We therefore strongly urge that long term funding should be approved for (i) the Home Upgrade Grant (HUG) programme and the Social Housing Decarbonisation Fund (SHDF). Targeting of these funds must be tightly focused on those in fuel poverty and in particular those in the deepest levels of fuel poverty.

A clear explanation of how LAD and HUG will interface with ECO4 and other local schemes will be essential to ensure cost effective delivery. Strategic alignment is vital to avoid confusion, encourage blended funding and reduce delivery costs.

The ECO4 programme should mainly be focused on upgrading the energy efficiency levels of fuel poor owner occupied homes. HUG should focus primarily on fuel poor owner occupied households in the worst circumstances – living in EPC Band E, F & G properties with the greatest fuel poverty gap. The Warm Home Discount (WHD) programme should be changed from one mainly focused on assisting those in receipt of pension credit and disability benefits, to one that is mainly focused on assisting fuel poor households to pay their energy bills. Priority should be given in the SHDF to upgrade the energy efficiency levels of fuel poor social housing homes.

There are still 294,000 FPEER Band E/F/G fuel poor private rented homes. Action will therefore need to be taken to incentivise or require the landlords of EPC Band E/F/G private rented properties to upgrade the energy efficiency standards of their properties to band D or above by 2025. Whilst the proposed extension of private rented minimum energy

⁶ CCC The Sixth Carbon Budget: <https://www.theccc.org.uk/publication/sixth-carbon-budget/>

efficiency standards to EPC Band C⁷ is very welcome, the proposal will only start to require landlords to upgrade their properties for new rentals (including extensions and renewals) in April 2025 and all rentals by April 2028. To meet the 2025 fuel poverty milestone, either the start of the proposed extension needs to be pulled forward to April 2022, or landlords will need to be given access to match funding from the ECO4 or HUG programmes to incentivise them to move early on Band E/F/G properties. Furthermore, whilst there are examples of how enforcement action is working in the current Band E MEES, stronger enforcement needs to be promoted and resourced across all local authorities.

There are 79,000 fuel poor social housing FPEER Band E/F/G homes that require upgrading to a minimum of Band D by 2025. We therefore recommend the MHCLG-led Decent Homes Standard⁸ should be revised to include a requirement for landlords to bring social housing properties up to a minimum EPC D standard by 2025 and a minimum of EPC Band C by 2030.

Figure 1 shows that under current programmes, less than 1/3 of the fuel poor households existing at the start of the strategy will have been upgraded to Band C or above. **Progress towards the 2030 Band C target must be substantially accelerated.**

As proposed by the Committee on Climate Change and the CFP, government should consider changing the current Winter Fuel Payment (WFP) programme. To help deliver the 2030 fuel poverty Band C target and minimise the call on other Exchequer funds the WFP should be re-focused and its £1.7 billion per year budget split 50/50 to (a) assist those most in need (both pensioners and non-pensioners) to pay their energy bills and (b) assist to upgrade the energy efficiency levels of fuel poor owner occupied homes. WFP would in effect cease to be solely a DWP programme and 50% of funds would transfer to BEIS or MHCLG. Given the economic situation, providing WFP to wealthy top rate tax earners when the technology is available to better target assistance to those most in need and reduce carbon emissions is completely unjust.

The WHD and ECO programmes should be extended from 2026 to 2030. ECO should continue to be focused mainly on fuel poor owner occupied homes but allowing some flexibility for mix tenure buildings.

Summary of Recommendations

Recommendation 1: BEIS should calculate the costs of delivering the LILEE fuel poverty strategy and put in place appropriate programmes and regulations to meet the 2025 milestone and 2030 target. The fuel poverty strategy **guiding principles** should be applied when designing the programmes and regulations. The costings should include adopting the

⁷ Improving the Energy Performance of Privately Rented Homes in England and Wales: <https://www.gov.uk/government/consultations/improving-the-energy-performance-of-privately-rented-homes>

⁸ A decent home: definition and guidance: <https://www.gov.uk/government/publications/a-decent-home-definition-and-guidance>

Committee on Climate Change's recommendation to install solid wall insulation on all solid wall fuel poor homes.⁹

Recommendation 2: The targeting of schemes on fuel poor households should be substantially improved through the use of greater sharing of data between HMRC, DWP, MHCLG and BEIS, and in particular a more balanced approach of what constitutes a benefit to consumers. We would like to see greater use of open data matching and accessing third party data sources without contravening GDPR. This necessitates more resources to be allocated to data management, machine learning and artificial intelligence modelling; and also improved levels of working with third parties (e.g. universities) to share ideas and technology to enhance AI techniques. This could be further supported by UK Research and Innovation directing funding to third parties who are interested in developing models to make at better use of data to cost-effectively targeting assistance to those most in need.

Recommendation 3: The future Warm Home Discount should primarily be focused on households with incomes of deciles 1 to 4 and who live in Band D/E/F/G homes (note - 76% of the fuel poor are in deciles 1 and 2 and 24% are in deciles 3 and 4). A minimum target of 60% of WHD energy bill rebates automatically being provided to fuel poor households should be used when designing the 2022/23 and beyond schemes. Rather than just utilising receipt of benefits as criteria for eligibility, we continue to recommend that techniques outlined in Recommendation 2 are used to identify fuel poor households for eligibility.

Recommendation 4: The proposed extension of the Minimum Energy Efficiency Standards for Private Rented Homes to EPC Band C by 2028 should include ways to incentivize landlords of Band E/F/G properties to meet the 2025 EPC Band D milestone, along with a £15,000 cap (versus the £10,000 cap proposed in the consultation). In the event of the recommendation for a higher cap not being accepted, we propose an alternative to increase the £10,000 cap for EPC Band F/G PRS properties that failed to meet the minimum energy efficiency standard of Band E under the current MEES regulations, by the level of underspend versus the £3,500 Band E cap.

Recommendation 5: Long term funding for the Social Housing Decarbonisation Fund should be approved. The priority for the SHDF should be on upgrading the energy efficiency of fuel poor social housing homes and should include specific, measurable fuel poverty targets to help achieve the 2025 Band D milestone and 2030 Band C target. The Decent Homes Standard Review should be updated to include a requirement to bring social housing properties up to a minimum EPC Band D standard by 2025 and a minimum of EPC Band C by 2030.

Recommendation 6: Improving the targeting of ECO and HUG funds on fuel poor households should be the primary drivers for achieving the 2025 milestone and making progress towards the 2030 target in the Owner Occupied sector. Rather than just utilising receipt of benefits as criteria for eligibility, we continue to recommend that techniques outlined in Recommendation 2 are used to identify fuel poor households for eligibility.

⁹ CCC The Sixth Carbon Budget: <https://www.theccc.org.uk/publication/sixth-carbon-budget/>

Recommendation 7: As well as improving the targeting of ECO on fuel poor households, it should be comprehensively redesigned to address issues such as reducing the total number of eligible households, incentivising multiple measures, incentivising upgrading Band E/F/G homes, installing solid wall insulation in fuel poor homes, and an evidence-based refresh of the ECO Flex Programme. The ECO Flex programme should also be amended to improve its ability to provide assistance to those whose health is suffering from living in a cold home.

Recommendation 8: Given that existing programmes such as ECO will be extended and new schemes such as the Local Authority Delivery and Home Upgrade Grant will be introduced, to avoid overlap and inefficiencies, it is imperative to ensure alignment of these programmes with each other. Long term funding for the HUG should be approved. We recommend that the Home Upgrade Grant and Local Authority Delivery programmes are designed to fill the gaps left by other energy market mechanisms **and help deliver the 2025 Band D fuel poverty strategy milestone.**

Recommendation 9: The cost to deliver the Band C target is heavily backloaded as 3.2 million fuel poor homes will need to be upgraded from Band D. Based on progress shown in Figure 1, less than 1/3 of fuel poor homes have achieved Band C since the start of the strategy in 2015. To help fund the delivery of the 2030 band C target, the Energy Company Obligation and Warm Home Discount programmes should therefore be further extended from 2026 to 2030. In addition, as jointly recommended with the Committee on Climate Change, the £1.7 billion per year Winter Fuel Payment budget should be redeployed to (a) assist those most in need (both pensioners and non-pensioners) to pay their energy bills and (b) assist to upgrade the energy efficiency levels of fuel poor owner occupied homes.

Recommendation 10: To help achieve the 2030 Band C target in the rented sectors, regulations in the Private Rented and Social Housing sectors need to be strongly enforced to ensure that rented properties are upgraded to Band C.

Recommendation 11: Making faster progress towards the 2030 fuel poverty strategy Band C target will make big improvements in the ability of fuel poor households to afford to heat their homes to comfortable levels. However, as noted in many publications, decarbonising the energy supply system and home heating puts upwards pressure on energy bills. It is therefore important that steps are taken to ensure there is a just transition to Net Zero. Fuel poor households must be protected from any resultant increases in their energy bills, so that they can continue to afford to heat their homes to the same level of thermal comfort.

We believe that the above recommendations will help government deliver the fuel poverty strategy in a way that is both cost-effective for government and affordable for landlords. Our recommendations will also assist in government's 'levelling up agenda' and help stimulate the supply chain of energy efficiency measures which are needed to achieve the transition to Net Zero.

Our full annual report will be published in the Autumn, and will cover wider issues associated with fuel poverty, in particular ensuring that the **impact of the transition to Net Zero on those in fuel poverty is clearly costed and the measures are put in place to ensure**

that there is a just transition. We will also look at the structure and affordability of energy prices, in particular the increasing fixed elements of the bill and whether this could disproportionately impact those in fuel poverty. It is expected by that time that the Heat and Buildings Strategy will be published which will provide greater detail on the transition to a low carbon heating system.

Section 1: A Strong Analytical Framework

Recommendation 1: BEIS should calculate the costs of delivering the LILEE fuel poverty strategy and puts in place appropriate programmes and regulations to meet the 2025 milestone and 2030 target. The fuel poverty strategy guiding principles should be applied when designing the programmes and regulations. The costings should include adopting the Committee on Climate Change’s recommendation to install solid wall insulation on all solid wall fuel poor homes.¹⁰

In our previous annual reports, we have utilised a 2014 Committee on Climate Change cost estimate¹¹ for delivering the fuel poverty strategy for England. This has enabled us to calculate funding gaps to deliver the strategy and make recommendations accordingly for new programmes/regulations. For this report and future reports, we will use an updated Committee on Climate Change cost estimate for achieving the 2030 Band C target from their recently published 6th Carbon Budget¹² (adjusted by us using CCC’s data to get costs for England fuel poor homes only):

Figure 2: Tenure Type £(000)

Owner Occupied	4,050 to 7,940*
Private Rented	4,436 to 6,659*
Social Housing	714 to 1,452*
Total	9,200 to 16,051*

* Includes floor insulation

Source: Committee on Fuel Poverty

It should be noted however that the CCC’s cost estimate is based on the old LIHC metric and therefore underestimates the costs for the current LILEE metric which has added the following numbers of fuel poor homes to upgrade to FPEER Band C:

Figure 3:

Change in number of fuel poor homes LILEE vs LIHC (000)

<u>2019</u>	Band F/G	Band E	Band D	Total D to G	% increase D to G
<u>Owner Occupied</u>	3	-7	236	233	23%
<u>Private Rented</u>	-2	23	504	524	78%
<u>Social Housing</u>	1	11	402	414	128%
<u>Total</u>	2	27	1,142	1,171	58%

Source: Committee on Fuel Poverty

¹⁰ CCC The Sixth Carbon Budget: <https://www.theccc.org.uk/publication/sixth-carbon-budget/>

¹¹ Centre for Sustainable Energy - Meeting the proposed fuel poverty targets, November 2014: https://www.theccc.org.uk/wp-content/uploads/2014/11/CCC_ModellingProposedFuelPovertyTargets_FinalReport_Nov2014.pdf

¹² CCC The Sixth Carbon Budget: <https://www.theccc.org.uk/publication/sixth-carbon-budget/>

As outlined in our 2020 Annual Report, we recommend that landlords should be the primary funders of the necessary energy efficiency improvement to their properties.

We have repeatedly recommended that BEIS develops its own cost estimates of delivering the strategy so that they can ensure sufficient funding and regulations are put in place to deliver the milestones and target. However, to date, BEIS have not published a cost estimate and long term funding and regulations have not yet been put in place.

Therefore, we recommend that BEIS calculates the costs of delivering the LILEE fuel poverty strategy and puts in place appropriate programmes and regulations to meet the 2025 milestone and 2030 target. The fuel poverty strategy guiding principles should be applied when designing the programmes and regulations:

- Prioritisation of the most severely fuel poor
- Supporting the fuel poor with cost-effective policies
- Reflecting vulnerability in policy decisions
- Designing sustainable fuel poverty policies

In addition, the two guiding principles developed by the CFP should be applied:

- Optimise the use of existing government programme budgets before requesting new funds.
- Landlords should be the primary funders of the required energy efficiency improvements of their properties.

Although we recognise that government's Net Zero commitment will require the energy efficiency levels of all properties to be upgraded and their heating decarbonised, we believe that government's guiding principles in the fuel poverty strategy should ensure that a 'fabric first' approach is taken and that those most in need will be helped first.

Recommendation 2: The targeting of schemes on fuel poor households should be substantially improved through the use of greater sharing of data between HMRC, DWP, MHCLG and BEIS, and in particular a more balanced approach of what constitutes a benefit to consumers. We would like to see greater use of open data matching and accessing third party data sources without contravening GDPR. This necessitates more resources to be allocated to data management, machine learning and artificial intelligence modelling; and also improved levels of working with third parties (e.g. universities) to share ideas and technology to enhance AI techniques. This could be further supported by UK Research and Innovation directing funding to third parties who are interested in developing models to make a better use of data to cost-effectively targeting assistance to those most in need.

We have highlighted in previous reports that of the annual budget of £2.6bn for the following programmes, less than 15% is targeted to those in fuel poverty (LIHC basis):

Winter Fuel Payments £1.7bn less than 10% of the funds are received by LIHC households.

Warm Home Discount £0.3 bn approximately 19% are allocated to LIHC households¹³

Energy Company Obligation £0.55 bn approximately 30% is delivered to LIHC households.¹⁴

We of course recognise that when introduced, the WFP and WHD programmes *were* targeted to assist householders in demographics with some of the lowest incomes. Over time, these programmes, along with others such as the pension triple-lock, have been largely successful and have helped lift many of the originally targeted groups out of the lowest income levels (i.e. many pensioners). Meanwhile, the demographics of households with low incomes have changed. For example, the wage levels of many working households are now insufficient to allow them to pay for basic services and maintain their properties. This demographic shift is highlighted by the fact that 46% of fuel poor households are not in receipt of benefits and only 22% of fuel poor are pensioners. This demographic shift is behind our recommendations for better targeting of assistance to those most in need.

Furthermore, it should also be noted that only 22% of the £2.6 billion per year of funds are being allocated to actual energy efficiency measures (as opposed to rebates on energy bills or income supplements which are hypothecated against energy bill costs) and help in our journey toward to Net Zero and increased household comfort. This percentage will change slightly as ECO moves up to £0.85 billion and WHD to £0.4 billion in the 2022 to 2026 programmes but it will still be less than 30%. Previous research commissioned by CCC and CFP has shown that by refocusing the Winter Fuel Payment budget on those most in need,

¹³WHD Extension IA published in October 2020, Para 57:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/926436/Annex_E_Impact_Assessment_WHD_21_22.pdf

¹⁴ ECO3 IA Final Stage IA, Para 27:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749638/ECO_3_Final_Stage_IA_Final.pdf

£0.8 bn per year could be freed up to fund additional energy efficiency programmes for the fuel poor.¹⁵

Targeting of resources cost effectively is becoming more important for a number of reasons:

- 1) As more homes are upgraded to Band C, ECO finding costs are likely to rise as fuel poor homes become less numerous.
- 2) Fixing the worst performing homes first will mostly have the biggest impact on both carbon and also the household.
- 3) Without better targeting, the policy options open to Ministers remain more limited. We accept that politically they may choose to allocate funds in a certain way but they should at least fully understand the possible policy alternatives.

The passing of the Digital Economy Act in 2017 was intended to help in allowing more data sharing between government departments and whilst there has been some movement of data between DWP and BEIS, the scope has been fairly limited in part due to the requirement to show a clear benefit to consumers of sharing their data. This means that data sharing can most easily meet this criteria for improving the targeting of WHD. Research commissioned by the Committee and provided by Deloitte on using artificial intelligence/advanced statistics to better target programmes, indicates that just on the ECO portion of funding, the better use of AI could improve the NPV of funds spent by circa £100m¹⁶.

We believe that better data matching and the use of AI is a journey and not a destination in itself. It takes time to build up data sets, experience and teams and therefore we should expect to improve targeting efficiency year on year as the AI improves. Furthermore, the current poor level of targeting of the entire suite of funds notionally addressing fuel poverty (less than 15% on average on LIHC basis) means that even a rudimentary re-targeting is likely to show a benefit. It is this comparison that should be borne in mind when comparing any potential tool. We would recommend using existing data sets including EPC data, deprivation data, smart meter data and health data to start improving targeting.

Therefore, we recommend that a number of very achievable actions could improve the targeting:

- 1) Greater sharing of data with HMRC, DWP, MHCLG and BEIS and in particular a more balanced approach of what constitutes a benefit to consumers.
- 2) More resources need to be allocated to data management, machine learning and AI

¹⁵ Centre for Sustainable Energy - Meeting the proposed fuel poverty targets, November 2014:

https://www.theccc.org.uk/wp-content/uploads/2014/11/CCC_ModellingProposedFuelPovertyTargets_FinalReport_Nov2014.pdf

¹⁶ Better use of data and AI in delivering benefits to the fuel poor: research report and CFP's recommendations: <https://www.gov.uk/government/publications/better-use-of-data-and-ai-in-delivering-benefits-to-the-fuel-poor-research-report-and-cfps-recommendations>

- 3) There could be improved working with third parties (e.g. universities) to share ideas and technology enhancing AI techniques. This could be further supported by UK Research and Innovation funding directed to better use of data in targeting.
- 4) There could be greater use of open data matching and accessing third party data sources without contravening GDPR issues.

Recommendation 3: The future Warm Home Discount should primarily be focused on households with incomes of deciles 1 to 4 and who live in Band D/E/F/G homes (note - 76% of the fuel poor are in deciles 1 and 2 and 24% are in deciles 3 and 4). A minimum target of 60% of WHD energy bill rebates automatically being provided to fuel poor households should be used when designing the 2022/23 and beyond schemes. Rather than just utilising receipt of benefits as criteria for eligibility, we continue to recommend that techniques outlined in Recommendation 2 are used to identify fuel poor households for eligibility.

Although we are focusing most of our recommendations for programmes/regulations by tenure, improved targeting of the Warm Home Discount (WHD) programme could assist in reducing levels of fuel poverty in all tenures. Our recommendation made in our 2020 Annual Report to improve the focus of the 2020/21 WHD on those in fuel poverty was not acted on. For the fourth year running, the WHD has been designed to primarily provide energy bill discounts to pensioners on pension credit (49% of recipients) and those in receipt of disability benefits (35% of recipients).¹⁷

Despite previous government commitments to improve its focus of the Warm Home Discount (WHD) on the fuel poor, only 19% (circa 400,000 on LIHC basis) of the winter 2021/22 scheme recipients are fuel poor.¹⁸ As the scheme is paid for by all energy bill payers, the WHD therefore continues to be regressive on the 2 million (LIHC basis) fuel poor households who are not eligible or are unable to claim the benefit.

The scheme for Winter 2021/22 continues to use receipt of a wide range of benefits (both means tested and non-means tested) to define eligibility. Use of benefits as eligibility criteria opens the scheme up to those who are not on low incomes (e.g. up to income decile 8) and also ignores the 46% of fuel poor households who do not claim, or are not eligible for benefits. Fuel poor households in employment are the most under-represented recipients of WHD.

We were pleased that the Energy White Paper announced that there will be a consultation on reforms of the WHD to improve fuel poverty targeting by using government data to provide automatic rebates to most recipients. The White Paper also contained a proposal to extend the WHD scheme to 2025/26, increase the budget by £125 million per year (to £475

¹⁷ Warm Home Discount Scheme 2021 to 2022 Impact Assessment:
<https://www.gov.uk/government/consultations/warm-home-discount-scheme-2021-to-2022>

¹⁸ Warm Home Discount Scheme 2021 to 2022 Impact Assessment:
<https://www.gov.uk/government/consultations/warm-home-discount-scheme-2021-to-2022>

million/year GB) and raise the annual fuel bill discount to £150. It was estimated that the higher budget would add an additional 750,000 recipients (GB).¹⁹

Section 2A: 2025 Milestone Sector Based Proposals

We do not have the resource to estimate the funding gaps to achieve the 2025 milestone and 2030 target. However, as the change from using the LIHC metric to using the LILEE metric has not materially impacted the number of fuel poor FPEER Band E/F/G homes, it is reasonable to assume that the 2025 milestone funding gap is in the range of that calculated in our 2020 Annual Report (circa £2.5 billion). However, adjustments need to be made to this figure if the CCC's recommendation to install solid wall insulation on all solid wall fuel poor homes is to be implemented.

Although in the context of government energy efficiency Manifesto commitments a 2025 funding gap of circa £2.5+ billion may not sound high, it has to be remembered that current ECO3 targeting is only 30% efficient on fuel poor homes (LIHC basis) and it is poorly focused on the fuel poor living in the least energy efficient homes. Furthermore, regulations requiring landlords to improve their properties to Band C have not yet been approved, neither has long term funding for HUG, or SHDF been approved. **The 2025 milestone is therefore currently at high risk of being missed.**

In this interim report, we are segmenting our recommendations for action into the three tenures of fuel poor homes. As many as is reasonably practicable of the following fuel poor properties require upgrading to a minimum of Band D by 2025:

Figure 4:

<u>Tenure Type</u>	<u>FPEER Band E/F/G fuel poor homes (000)</u>
Private Rented Sector	294
Social Housing	79
Owner Occupied	306
Total	679

Source: Committee on Fuel Poverty

Recommendation 4: The proposed extension of the Minimum Energy Efficiency Standards for Private Rented Homes to EPC Band C by 2028 should include ways to incentivize

¹⁹ Energy white paper: Powering our net zero future: <https://www.gov.uk/government/publications/energy-white-paper-powering-our-net-zero-future>

landlords of Band E/F/G properties to meet the 2025 EPC Band D milestone, along with a £15,000 cap (versus the £10,000 cap proposed in the consultation). In the event of the recommendation for a higher cap not being accepted, we propose an alternative to increase the £10,000 cap for EPC Band F/G PRS properties that failed to meet the minimum energy efficiency standard of Band E under the current MEES regulations, by the level of underspend versus the £3,500 Band E cap.

The PRS has the greatest concentration of fuel poor households of any sector. Although only 19% of all homes in England are in the PRS, 38% of all households in fuel poverty live in privately rented homes. Therefore, both from a social equity and a need to meet the UK's Net Zero legal commitment, the energy efficiency of homes in the PRS require upgrading. In our 2019 Research Report, we recommended that landlords should be the primary funders of the required energy efficiency improvements to their properties.²⁰ The current MEES regulations require landlords to fund up to a maximum cap of £3,500 for improvements to upgrade their properties to bring them up to EPC E by 2020. However, even if fully implemented, due to the low spending cap they were forecast to upgrade less than half (48%) of PRS EPC F and G households to Band E.

We are therefore pleased to see that government recently consulted on a proposal to extend the Privately Rented Sector Minimum Energy Efficiency Standards (PRS MEES) to Band C.²¹ Given the concentration of fuel poverty in the PRS, these proposals if fully implemented would make a major contribution towards the Government achieving the 2030 fuel poverty target of EPC Band C. However, this proposal would only require landlords to achieve a minimum of Band C in April 2025 for new tenancies with a backstop for all PRS rentals of April 2028, leaving EPC Band D - G households potentially waiting 7 years for an upgrade.

Enforcement of housing standards by local authorities is severely constrained by lack of access to up-to-date data, and limited resources to carry out enforcement, and low levels of fines. This view is supported by the BEIS report on compliance pre-2018 and by research commissioned by the CFP and the findings from the BEIS commissioned study of MEES implementation in local authorities.²² A more recent analysis of landlord adherence to the regulations²³ shows that there is a high level of awareness about the PRS MEES, but it has not been possible to definitively quantify the level of compliance with the regulations across the entire private rental housing stock in England and Wales at this stage. Furthermore,

²⁰ Enforcing regulations to enhance energy efficiency in the private rented sector: research report and CFP's recommendations: <https://www.gov.uk/government/publications/enforcing-regulations-to-enhance-energy-efficiency-in-the-private-rented-sector-research-report-and-cfps-recommendations>

²¹ Improving the energy performance of privately rented homes: <https://www.gov.uk/government/consultations/improving-the-energy-performance-of-privately-rented-homes>

²² Evaluation of the Domestic Private Rented Sector Minimum Energy Efficiency Standard Regulations: <https://www.gov.uk/government/publications/domestic-private-rental-sector-minimum-energy-efficiency-standards-interim-evaluation>

²³ Evaluation of the Domestic Private Rented Sector Minimum Energy Efficiency Standard regulations 2020 Interim Process and Impact Evaluation Report: <https://www.gov.uk/government/publications/domestic-private-rental-sector-minimum-energy-efficiency-standards-interim-evaluation>

there are indications of non-compliance but again, more data needs to be collected to carry out a full analysis. The CFP are therefore pleased to see that the core proposals set out in the consultation document to extend the PRS MEES to EPC Band C take on board our associated recommendations and in particular our proposals for²⁴:

- A property and compliance database (although we recommended a more broadly based landlord registration scheme)
- Mandatory registration
- A landlord registration fee
- Higher and therefore more impactful fines

Whilst we acknowledge that the new proposals are a significant improvement on the current regulations, we are concerned that they do not require landlords to meet the fuel poverty milestone of Band D by 2025 for all existing tenancies. 294,000 PRS properties in 2020 remained below FPEER Band D and it is reasonable to assume that with the current poor enforcement and the number of exemptions meeting the Band E MEES, this figure will not change significantly.

If government proceeds with their proposed timeline of 2025 for new tenancies and 2028 for all tenancies, most PRS landlords will wait until the end of 2024 to start making investments to upgrade the energy efficiency of their Band D/E/F/G properties. As a result, probably less than a third of PRS Band D/E/F/G properties will have reached Band C or above by the end of 2025. We are therefore of the view that either the timetable for the Band C MEES revision needs to be brought forward to meet the fuel poverty 2025 milestone or landlords of Band E/F/G properties need to be incentivised to achieve the EPC D milestone through access to match funding in programmes such as ECO and HUG.

The proposal to extend the PRS MEES regulations to Band C also includes a revised £10,000 cap on landlords' expenditure. For the existing MEES regime we have previously said that the £3,500 cap is too low and are pleased that updated proposals suggest a higher cap so that 70% of PRS Band D and below homes are forecast to achieve EPC C or above. However, the consultation shows that 23% percent of the PRS Band D/E/F/G properties will not achieve Band C with a £10,000 cap, albeit that for some properties it is not technically feasible to get to Band C (note - the balance of 7% are assumed not to comply).

Therefore we recommend a £15,000 cap (inclusive of VAT) with an Energy Efficiency Rating (EER) Band C target be implemented. BEIS's own Impact Assessment²⁵ clearly shows that the £15,000 EER case has the best economics and it is also affordable for most landlords. However, we recognise that this may not be affordable for all landlords and regulations should take this into account. This higher cap would increase the percentage of properties

²⁴ Enforcing regulations to enhance energy efficiency in the private rented sector: research report and CFP's recommendations: <https://www.gov.uk/government/publications/enforcing-regulations-to-enhance-energy-efficiency-in-the-private-rented-sector-research-report-and-cfps-recommendations>

²⁵ Improving the energy performance of privately rented homes: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/932403/prs-epc-c-consultation-stage-ia.pdf

that would achieve Band C or above from 70% to 74%. Access to ECO4 and HUG match funding to install high cost solid wall insulation in solid wall properties should be provided to landlords.

Alternatively, if government are unable to accept our recommendation for a higher £15,000 cap, we would recommend an alternative that would stay with government's proposed £10,000 cap but to increase the cap for Band F/G PRS properties that failed to meet the minimum energy efficiency standard of Band E under the current MEES regulations. This alternative approach was outlined in our Fourth Annual Report.²⁶

Recommendation 5: Long term funding for the Social Housing Decarbonisation Fund should be approved. The priority for the SHDF should be on upgrading the energy efficiency of fuel poor social housing homes and should include specific, measurable fuel poverty targets to help achieve the 2025 Band D milestone and 2030 Band C target. The Decent Homes Standard Review should be updated to include a requirement to bring social housing properties up to a minimum EPC Band D standard by 2025 and a minimum of EPC Band C by 2030.

18.4% of fuel poor households live in social housing, most of which are already FPEER Band D due in large part to the requirements of the Decent Homes Standard. However, there are 79,000 fuel poor social housing homes that require upgrading to Band D by 2025. We therefore welcomed the Manifesto commitment of £3.8 billion for a Social Housing Decarbonisation Fund (SHDF) to be spent across a 10 year period.

Whilst we are comfortable that the majority of SHDF spend is planned for post 2025, we are concerned that the recent demonstrator project for the SHDF did not have any specific targets to address homes with an EPC rating of E/F/G. The demonstrator project is due to finish in 2021. The main objectives are to:

- Improve energy performance of social housing
- Increase green jobs in the retrofit sector as part of the wider COVID-19 economic recovery
- Reduce the cost of retrofits
- Reduce average fuel bills for households
- Support the development of the net-zero critical supply chain and skills within the UK
- Improve health, comfort and wellbeing of occupants

The government has committed £62 million to the SHDF demonstrator project, involving 19 projects, at a total value with match funding of £146 million.²⁷ Based on the successful bids, 2342 properties are expected to be improved, of which 75% are expected to reach EPC A or

²⁶Committee on Fuel Poverty annual report 2020:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/894502/CFP_Annual_Report_June_2020.pdf

²⁷ Social Housing Decarbonisation Fund Demonstrator – successful bids:

<https://www.gov.uk/government/publications/social-housing-decarbonisation-fund-demonstrator-successful-bids/social-housing-decarbonisation-fund-demonstrator-successful-bids>

B, at an average cost in government grant funding of £26,000 per home improved. This is a significant level of investment per home in a sector where the majority of fuel poor are not in the lower EPC bands E/F/G. If continued at this average investment cost per home, the £3.8 billion SHDF will upgrade less than 150,000 homes, whereas 738,000 fuel poor social housing homes require upgrading to Band C or above. If designed on the same basis as the demonstration pilot, the SHDF investment would achieve a positive outcome toward the Net Zero target but would have little impact on addressing fuel poverty. Without specific targeting of the SHDF on upgrading the fuel poor EPC E/F/G homes to Band D by 2025 and all fuel poor social housing homes to Band C by 2030, the Social Housing Sector remains a concern as many fuel poor properties could remain untreated. We understand that BEIS is aware of this and are working to ensure that the future SHDF programme strikes an appropriate balance between breadth and depth of interventions.

Alongside the SHDF the government also intends to update the Decent Homes Standards to support decarbonisation and energy efficiency, as set out in the Charter for Social Housing Residents: Social Housing White Paper published in November 2020.²⁸ This review is underway, and we would strongly urge that consideration is given to using the fuel poverty worst first principle with a target to bring all social housing homes up to EPC D by 2025 and Band C by 2030.

Given the regulated nature of the Social Housing sector we believe that it can play a major role in deploying funds effectively and with good governance, which in turn could support a building the supply chain in the sector as well as helping the government's levelling up agenda. The fact is that most local authorities and Housing Associations have strong relationships with suppliers and will stand behind the quality of work undertaken.

Recommendation 6: Improving the targeting of ECO and HUG funds on fuel poor households should be the primary drivers for achieving the 2025 milestone and making progress towards the 2030 target in the Owner Occupied sector. Rather than just utilising receipt of benefits as criteria for eligibility, we continue to recommend that techniques outlined in Recommendation 2 are used to identify fuel poor households for eligibility.

Although we are recommending that improvements in the energy efficiency levels of rented homes should primarily be driven through regulation, regulation is not an option for driving the energy efficiency of fuel poor Owner Occupied properties. We are therefore recommending that the ECO4 and HUG funds be the primary drivers for achieving the 2025 milestone and making progress towards the 2030 target in the Owner Occupied sector.

However, the ECO4 and HUG funds will be insufficient to deliver the 2025 milestone for the 306,000 FPEER Band E/F/G fuel poor owner occupied homes, unless the targeting efficiency on both fuel poor households and those in the deepest levels of fuel poverty is substantially improved versus current ECO3 programme. We continue to recommend that benefits

²⁸ The charter for social housing residents: social housing white paper: <https://www.gov.uk/government/publications/the-charter-for-social-housing-residents-social-housing-white-paper/the-charter-for-social-housing-residents-social-housing-white-paper>

should no longer act as the sole proxy for eligibility of programmes, as this opens eligibility to significant numbers of non-fuel poor households (particularly where non-means tested benefits have applied) and fails to address the 46% of fuel poor who are not in receipt of means-tested benefits, many of whom are working families. It also ignores the type and energy efficiency levels of homes.

Given the limited success of both the Green Deal and the Green Homes Grant, we believe that government needs to look at the end-to-end design process of any scheme that is aimed at the Owner Occupied Sector, taking into account of the issues in previous schemes. It is essential that we create long term stable and credible programmes so that the supply chain can invest, thereby reducing costs and improving quality.

Section 2B: 2025 Milestone Scheme Based Proposals

Recommendation 7: As well as improving the targeting of ECO on fuel poor households, it should be comprehensively redesigned to address issues such as reducing the total number of eligible households, incentivising multiple measures, incentivising upgrading Band E/F/G homes, installing solid wall insulation in fuel poor homes, and an evidence-based refresh of the ECO Flex Programme. The ECO Flex programme should also be amended to improve its ability to provide assistance to those whose health is suffering from living in a cold home.

We welcome the proposed extension of the ECO programme from 2022 to 2026 and the increase from £650 million per year (circa £550 million for England) to £1 billion per year (circa £850 million per year for England). We repeat the recommendation made in our 2019 Report that ECO4 should be at least 50% focused on fuel poor households (ECO3 is circa 30% focused on LIHC basis) and that the fuel poverty strategy guiding principles should be used when designing the programme. This recommendation is supported by the Impact Assessment for the ECO3 consultation which demonstrated that a smaller eligible pool of 3.5 million had an equity weighted NPV of £383 million greater than the 6.6 million eligible pool selected for the programme. We support requiring contractors to have the TrustMark qualification to ensure that all ECO4 measures are installed to high standards.

We further recommend a comprehensive redesign of ECO4 that addresses the following eight ECO4 design criteria.

1. Eligibility for ECO4 should not be solely based on receipt of benefits as only 54% of fuel poor households are in receipt of benefits. The programme should be primarily focused on **fuel poor Owner Occupied Band D/E/F/G homes**, but with **uplifts** to incentivise improving the energy efficiency levels of Band E/F/G homes and also homes in villages, hamlets and isolated areas. Even with an increased budget, ECO4 can only deliver a finite number of energy efficiency measures per year. Therefore, to improve the number of measures received by fuel poor households, the eligible pool size should be reduced and in proportion to the number of fuel poor homes that require upgrading (e.g. total eligibility pool of circa 3 million).

2. Better use of data should be used to define eligibility. The use of data, artificial intelligence (AI) and advanced statistics models should be utilised to help identify fuel poor households. Given issues such as the complexity of modelling and the need to protect the data used, we consider a concept of central targeting (where they have the data and skills) matched with local delivery (where they know the issues on the ground) should be considered. Furthermore, the energy companies should already have a database of homes that have received previous ECO measures and that could benefit from the installation of additional energy efficiency measures. This could help ameliorate the concerns about the difficulties of finding eligible households in a smaller pool.

3. For band E/F/G homes, a **minimum target** of achieving Band D should be set so that multiple measures can be installed if necessary.

4. The programme should be designed to help deliver the Committee on Climate Change's recommendation that solid wall insulation is installed in all solid wall fuel poor homes²⁹ where this is practicable and that the very highest of technical standards are applied.

5. Unless government increases the proposed £10,000 cap on landlords' costs in the extension of PRS Minimum Energy Efficiency Standards to Band C, ECO4 should also provide PRS landlords who have solid wall Band E/F/G houses, with access to match-funding for the installation of solid wall insulation. We would suggest two-thirds of funding be provided by ECO4 and one-third be provided by the landlord.

6. The annual value of ECO Flex in ECO4 should remain at ECO3 levels (i.e. circa £140 million per year) until such time as the scheme can be demonstrated to be achieving its objectives and that steps can be taken to ensure there is an uptake of the scheme by local authorities that is proportional to the levels of fuel poverties in their area.

Whilst we support the Flex scheme in principle, despite Flex running since 2017 with an allocation of over £400 million, there is still no data available to demonstrate whether the current scheme is assisting to identify (i) fuel poor households, especially those on low income and not in receipt of ECO eligible benefits and (ii) low income households that are vulnerable to the effects of living in a cold home. Furthermore, data that is available about the use of Flex by local authorities shows that its application is very uneven. Some of the local authorities with the deepest levels of fuel poverty have not referred any of their householders for ECO Flex assistance. Therefore, the current ECO3 Flex scheme should be evaluated and be amended accordingly so that it delivers on its objectives.

As outlined in recommendation 16 of our 2019 Report, a new ECO 'Health Flex' programme should be introduced to enable the Health and Social Services sectors to directly make those who are on low incomes and whose health is suffering from living in cold Owner Occupied homes eligible for ECO4. This is essential in unlocking the ability of NHS and Social Care partners at local delivery level to address the phenomenal human and fiscal costs to the NHS of cold home health exacerbations. We have tested this recommendation with DHSC officials, NHS England officials and local Health and Wellbeing Boards who are broadly in

²⁹ CCC The Sixth Carbon Budget: <https://www.theccc.org.uk/publication/sixth-carbon-budget/>

support of policy action to institute an 'ECO4 Health Flex'. Early discussion and testing has suggested that referrals should be made through a single Place Based Referral Scheme, implemented jointly by the Clinical Commissioning Group (CCG) and local authority, ideally as part of an existing joint NHS / local authority Planning instrument such as the iBCF (improved Better Care Fund) plan or Winter Resilience Plan. It is understood that legislation is currently going through Parliament to further strengthen the iBCF, which is an opportunity to strengthen provisions for fuel poor households. Research has found that a wide range of health professionals can be engaged in making cold homes referrals, especially those that visit patients' homes and are able to experience the patient's living conditions. These include professionals such as occupational therapists, ambulance team, community nurse, health visitor, midwife, podiatrist, and respiratory specialists. GPs are also well placed to refer patients who have health conditions flagged in the NICE guidance³⁰ such as chronic obstructive pulmonary disease (COPD) or children with asthma. Hospital services, such as hospital discharge teams are also ideally placed to make a cold homes referral. Unplanned admissions or delayed discharges, especially of elderly people, increase significantly over the winter period. Referrals made through the single Place Based Referral Scheme should be via robust joint health and care scrutiny via local Health and Wellbeing Boards.

7. Unless there is firm evidence that ECO3 Innovation Funds are creating demonstrable value, we recommend that allocation of ECO4 to Innovation Funds should remain at circa £55 million per year. In ECO4 these Innovation Funds could also be used to develop targeting models to lower the energy companies' costs for identifying eligible households.

8. Replacement of existing gas boilers that are broken or beyond repair should be allowed. The replacement boilers and radiators/controls should be designed to be 'Net Zero Ready' (i.e. sized for the possible future installation of heat pumps or hydrogen heating).

³⁰ Excess winter deaths and illness and the health risks associated with cold homes: <https://www.nice.org.uk/guidance/ng6>

Recommendation 8: Given that existing programmes such as ECO will be extended and new schemes such as the Local Authority Delivery and Home Upgrade Grant will be introduced, to avoid overlap and inefficiencies, it is imperative to ensure alignment of these programmes with each other. Long term funding for the HUG should be approved. We recommend that the Home Upgrade Grant and Local Authority Delivery programmes are designed to fill the gaps left by other energy market mechanisms and help deliver the 2025 Band D fuel poverty strategy milestone.

Home Upgrade Grant

As part of the post-Covid-19 economic stimulation package, government introduced a Green Homes Grant (GHG) and Local Authority Delivery (LAD) programme to upgrade the energy efficiency of homes.

These are precursors to the £2.5 billion Home Upgrade Grant programme (HUG) which is both a Conservative Party Manifesto commitment and one of the priorities in the Prime Minister's 10-point plan for a Green Industrial Revolution announced in November 2020.³¹

The HUG is based on a 2019 Committee on Fuel Poverty proposal for additional funding to:

- address the shortfall in funding to meet the 2020/2025 fuel poverty strategy milestones;
- identify options for a successor programme to ECO beyond 2022;
- test new data-sharing powers to improve targeting;
- introduce innovative technologies and approaches to delivery; and
- attract matching funds.

The proposed spend for HUG was across 5 years commencing in 2020/21. In the Manifesto and associated Costings Document, HUG was described as an energy efficiency programme.³² However, its remit was subsequently widened by the PM to also include support for installing low carbon heating in households off the gas grid.

A fund of £150m was announced to kick start the HUG programme from early 2022 but clearly significant additional funds need to be approved as part of the next Spending Review to ensure that it contributes towards achieving the 2025 fuel poverty Band D milestone. The detailed design of HUG is now being drawn up within BEIS and early consultations have been held with stakeholders.

Priority for HUG funds should be given to a 'fabric first' approach in fuel poor owner occupied Band E/F/G homes. It should be designed to fill in gaps left by other programmes such as ECO (e.g. target fuel poor homes that are off-gas and/or in isolated areas) We also support a small percentage of HUG funds being made available to private landlords to assist with high cost energy efficiency measures and enable community schemes and blocks of homes to be insulated and improved to Band C.

³¹ The Ten Point Plan for a Green Industrial Revolution: <https://www.gov.uk/government/publications/the-ten-point-plan-for-a-green-industrial-revolution/title>

³² Conservative Manifesto 2019: <https://www.conservatives.com/our-plan>

Originally the CFP advocated a national scheme manager for HUG; however, given the successful administrative approach of LAD via local authority bids, this mechanism should be considered as an alternative. We are encouraged by the BEIS Energy Hubs work to support local areas that have not secured funds due to a lack of resources or expertise in applying directly for government funding. However, targets must be set centrally and accountability and visibility of how funds are spent must be enhanced for both LAD and HUG. It is important that lessons from trials are captured and used to design an extended programme of energy efficiency grants to achieve future targets.

Local Authority Delivery

In the difficult pandemic year of 2020, the main objective for the LAD was to quickly implement energy efficiency measures in low-income homes, in order to stimulate the economy. It has been the successful element of the Green Homes Grant scheme in so far as all of the Phase 1A and 1B funds totalling £200m have been allocated to local authorities and the Phase 2 £300m funds have been allocated to the 5 regional energy hubs for onward allocation to local authorities in their area.

Phase 1 A and Phase 1B of the LAD scheme are expected to upgrade approximately 20,000 homes of low-income households. Phase 1A is due for completion by August 2021 and Phase 1B is due for completion by September 2021.

Phase 2 of the scheme is expected to upgrade approximately 30,000 homes of low-income households and is due for completion by December 2021.

An additional £300m is being made available via local authorities over this summer for delivery through to March 2023. This will see a £200m extension to LAD (for households on the gas network for heat, to compliment the £150 million of funds approved for HUG Phase 1) and £100m going to further funding for the Social Housing Decarbonisation Fund

However, understandably, there has been no specific focus of LAD on fuel poor homes, other than it is focusing on low-income households, about a half of who are in fuel poverty. LAD's main objective was to quickly spend monies to stimulate the economy and to test the delivery methodologies through Local Authorities and Local Energy Hubs. No data is therefore available to show how many fuel poor homes have received energy efficiency measures.

We welcome the improved standards required by installers working on the GHG/LAD schemes and the requirement to use TrustMark registered businesses. Of significant concern, the CFP has been informed by stakeholders that some smaller companies have not registered due to the lack of recurrent funding and associated costs of registration.

Recommendations for the design of LAD and HUG and their alignment with the ECO programme:

1. Future phases of LAD should be assigned to prioritise assistance to Owner Occupied fuel poor households.

A clear explanation of how LAD and HUG interface with ECO4 and other local schemes will be essential to avoid confusion and to ensure cost effective delivery and blending of funds. Strategic alignment is vital to avoid confusion, encourage blended funding and reduce delivery costs.

2. HUG should take a primarily 'fabric first' approach and focus on those Owner Occupied households in the worst circumstances – living in E, F & G properties with the greatest fuel poverty gaps. Most of these are off the gas grid and/or solid wall properties and will require grant aid for measures that cost over the national average for insulation and make them ready for less polluting heating systems.
3. If fossil fuel heating systems are proposed to be replaced with heat pumps alongside insulation measures, the assessor must ensure running costs are lower, the heat output matches need and the new energy bill is affordable to the household - just because there may be a net saving in energy bills from energy efficiency measures combined with renewable heating, it should not be assumed that this makes the home affordable to heat for a fuel poor household.
4. Local authorities have been effective in delivering LAD and should continue to have an important role in the administration and delivery of future programmes. However, guidance to local authorities on eligibility criteria, and scheme delivery standards must be strengthened, and monitoring put in place to ensure adherence to guidelines, quality of engagement and assessment of measures/installation standards. Furthermore, it is important that steps be taken to ensure that those local authorities with the highest prevalence of fuel poverty are active participants. This will be critical to deliver the fuel poverty milestone/target and build consumer confidence.
5. The energy efficiency and renewable heat installation supply chains must be assessed and developed. Currently we are unclear whether there is even sufficient capacity to deliver the amount of work required to meet the 2025 and 2030 milestones.

Section 3: Achieving the 2030 Band C Target

Recommendation 9: The cost to deliver the Band C target is heavily backloaded as 3.2 million fuel poor homes will need to be upgraded from Band D. Based on progress shown in Figure 1, less than 1/3 of fuel poor homes have achieved Band C since the start of the strategy in 2015. To help fund the delivery of the 2030 band C target, the Energy Company Obligation and Warm Home Discount programmes should therefore be further extended from 2026 to 2030. In addition, as jointly recommended with the Committee on Climate Change, the £1.7 billion per year Winter Fuel Payment budget should be redeployed to (a) assist those most in need (both pensioners and non-pensioners) to pay their energy bills and (b) assist to upgrade the energy efficiency levels of fuel poor owner occupied homes.

Recommendation 10: To help achieve the 2030 Band C target in the rented sectors, regulations in the Private Rented and Social Housing sectors need to be strongly enforced to ensure that rented properties are upgraded to Band C.

The following number of fuel poor homes require upgrading from Band D to Band C or above:

Figure 5:

Owner Occupied (000)	1243
PRS (000)	1195
Social Housing (000)	738
Total:	3176

Source: Committee on Fuel Poverty

As shown in previous Annual Reports, the cost of delivering the 2030 fuel poverty Band C target is heavily back loaded to the 2026-2030 time period (in our 2020 Annual Report, we estimated over £10 billion on a LHC basis). We therefore continue to recommend that progress on upgrading homes to Band C or above is made throughout the remaining period to 2030, as Figure 1 above shows that to date progress to date has been slow.

Therefore, we recommend:

To support upgrading Owner Occupied fuel poor homes to Band C or above:

- Extend ECO from 2026 to 2030 and focus it mainly on fuel poor owner occupied households.
- Make better use of the Winter Fuel Payment budget to assist those most in need to pay their fuel bills and utilise £800 million per year of the budget for making energy efficiency improvements in fuel poor homes. This was a joint recommendation by ourselves and the Committee on Climate Change and is supported by research.³³

³³ Centre for Sustainable Energy - Meeting the proposed fuel poverty targets, November 2014: https://www.theccc.org.uk/wp-content/uploads/2014/11/CCC_ModellingProposedFuelPovertyTargets_FinalReport_Nov2014.pdf

To support upgrading PRS and Social Housing fuel poor homes to Band C or above:

- Enforce regulations in the PRS and Social Housing sectors to ensure that rented properties are upgraded to Band C.

To support all tenures of fuel poor:

- The Warm Home Discount programme should be extended from 2026 to 2030.

Recommendation 11: Making faster progress towards the 2030 fuel poverty strategy Band C target will make big improvements in the ability of fuel poor households to afford to heat their homes to comfortable levels. However, as noted in many publications, decarbonising the energy supply system and home heating puts upwards pressure on energy bills. It is therefore important that steps are taken to ensure there is a just transition to Net Zero. Fuel poor households must be protected from any resultant increases in their energy bills, so that they can continue to afford to heat their homes to the same level of thermal comfort.

Under the government's revised strategy *Sustainable Warmth – protecting vulnerable households in England*, technically, the strategy would be delivered providing 'as many as is reasonably practicable fuel poor homes have been upgraded to energy efficiency Band C or above by 2030. However, in the ministerial foreword of the revised strategy, Secretary of State for BEIS, Rt Hon Kwasi Kwarteng MP states 'The strategy sets out our plan to ensure everyone can **afford** the energy required to keep their lights and heating on, especially through the winter'. In our opinion, the main target of delivering the fuel poverty strategy is therefore to make energy bills '**affordable**' by improving energy efficiency levels to Band C or above.

However, the benefit of reducing energy bills by improving energy efficiency could be eroded if heating and other household energy costs increase as a consequence of Net Zero transition pathways. As one of our roles is to 'consider and report on the impact of other policies and schemes on fuel poverty' we have included this section on affordability.

In the CCC's 6th Carbon Budget Policies Report³⁴, they show that at current gas and electricity prices, installation of an electric heat pump to replace a gas boiler would increase a household's heating costs by circa £160 per year. Also, in the BEIS *Energy White Paper powering our net zero future*³⁵, the government suggests that the impact of their household energy decarbonisation proposals could increase household energy bills by up to £100 per year.

Whilst many households may be able to afford the additional costs of the transition to Net Zero, it has to be remembered that fuel poor households have a starting point of not being

³⁴ CCC The Sixth Carbon Budget: <https://www.theccc.org.uk/publication/sixth-carbon-budget/>

³⁵ Energy white paper: Powering our net zero future: <https://www.gov.uk/government/publications/energy-white-paper-powering-our-net-zero-future>

able to afford to heat their homes to comfortable levels today. This is driven by a combination of factors such as low incomes, living in homes with low energy efficiency levels, inadequate or expensive to run heating systems and sometimes paying more than the average for energy tariffs.

The fuel poverty statistics show that an average fuel poor household has an energy need that is £216 per year higher than the national average. The risk is therefore that although improving energy efficiency levels will make their homes more 'affordable to heat', the pressures of the transition to Net Zero on household energy bills could counteract the benefits of improved energy efficiency and make the reality very different.

We recognise that BEIS and Treasury (in their Net Zero Review Interim Report)³⁶ have identified the need to protect low income and vulnerable households during the transition to Net Zero. However, there is a risk that programmes such as HUG and the SHDF install renewable heating measures in fuel poor homes before the necessary protections against rising costs from the transition to Net Zero are put in place.

Protecting the fuel poor from the impacts of Net Zero will require all departments to work together to develop Net Zero policies and regulations that ensure a 'just transition' for those most in need and prevent driving those on low incomes back into fuel poverty. This means addressing energy tariffs and running costs and continuing to assess affordability of energy by households who are not technically fuel poor under the new definition but are living in poverty.

³⁶ Net Zero Review: Interim Report: <https://www.gov.uk/government/publications/net-zero-review-interim-report>

Annex A: Summary of Recommendations

Recommendation 1: BEIS should calculate the costs of delivering the LILEE fuel poverty strategy and puts in place appropriate programmes and regulations to meet the 2025 milestone and 2030 target. The fuel poverty strategy **guiding principles** should be applied when designing the programmes and regulations. The costings should include adopting the Committee on Climate Change’s recommendation to install solid wall insulation on all solid wall fuel poor homes.³⁷

Recommendation 2: The targeting of schemes on fuel poor households should be substantially improved through the use of greater sharing of data between HMRC, DWP, MHCLG and BEIS, and in particular a more balanced approach of what constitutes a benefit to consumers. We would like to see greater use of open data matching and accessing third party data sources without contravening GDPR. This necessitates more resources to be allocated to data management, machine learning and artificial intelligence modelling; and also improved levels of working with third parties (e.g. universities) to share ideas and technology to enhance AI techniques. This could be further supported by UK Research and Innovation directing funding to third parties who are interested in developing models to make at better use of data to cost-effectively targeting assistance to those most in need.

Recommendation 3: The future Warm Home Discount should primarily be focused on households with incomes of deciles 1 to 4 and who live in Band D/E/F/G homes (note - 76% of the fuel poor are in deciles 1 and 2 and 24% are in deciles 3 and 4). A minimum target of 60% of WHD energy bill rebates automatically being provided to fuel poor households should be used when designing the 2022/23 and beyond schemes. Rather than just utilising receipt of benefits as criteria for eligibility, we continue to recommend that techniques outlined in Recommendation 2 are used to identify fuel poor households for eligibility.

Recommendation 4: The proposed extension of the Minimum Energy Efficiency Standards for Private Rented Homes to EPC Band C by 2028 should include ways to incentivize landlords of Band E/F/G properties to meet the 2025 EPC Band D milestone, along with a £15,000 cap (versus the £10,000 cap proposed in the consultation). In the event of the recommendation for a higher cap not being accepted, we propose an alternative to increase the £10,000 cap for EPC Band F/G PRS properties that failed to meet the minimum energy efficiency standard of Band E under the current MEES regulations, by the level of underspend versus the £3,500 Band E cap.

Recommendation 5: Long term funding for the Social Housing Decarbonisation Fund should be approved. The priority for the SHDF should be on upgrading the energy efficiency of fuel poor social housing homes and should include specific, measurable fuel poverty targets to help achieve the 2025 Band D milestone and 2030 Band C target. The Decent Homes Standard Review should be updated to include a requirement to bring social housing

³⁷ CCC The Sixth Carbon Budget: <https://www.theccc.org.uk/publication/sixth-carbon-budget/>

properties up to a minimum EPC Band D standard by 2025 and a minimum of EPC Band C by 2030.

Recommendation 6: Improving the targeting of ECO and HUG funds on fuel poor households should be the primary drivers for achieving the 2025 milestone and making progress towards the 2030 target in the Owner Occupied sector. Rather than just utilising receipt of benefits as criteria for eligibility, we continue to recommend that techniques outlined in Recommendation 2 are used to identify fuel poor households for eligibility.

Recommendation 7: As well as improving the targeting of ECO on fuel poor households, it should be comprehensively redesigned to address issues such as reducing the total number of eligible households, incentivising multiple measures, incentivising upgrading Band E/F/G homes, installing solid wall insulation in fuel poor homes, and an evidence-based refresh of the ECO Flex Programme. The ECO Flex programme should also be amended to improve its ability to provide assistance to those whose health is suffering from living in a cold home.

Recommendation 8: Given that existing programmes such as ECO will be extended and new schemes such as the Local Authority Delivery and Home Upgrade Grant will be introduced, to avoid overlap and inefficiencies, it is imperative to ensure alignment of these programmes with each other. Long term funding for the HUG should be approved. We recommend that the Home Upgrade Grant and Local Authority Delivery programmes are designed to fill the gaps left by other energy market mechanisms **and help deliver the 2025 Band D fuel poverty strategy milestone.**

Recommendation 9: The cost to deliver the Band C target is heavily backloaded as 3.2 million fuel poor homes will need to be upgraded from Band D. Based on progress shown in Figure 1, less than 1/3 of fuel poor homes have achieved Band C since the start of the strategy in 2015. To help fund the delivery of the 2030 band C target, the Energy Company Obligation and Warm Home Discount programmes should therefore be further extended from 2026 to 2030. In addition, as jointly recommended with the Committee on Climate Change, the £1.7 billion per year Winter Fuel Payment budget should be redeployed to (a) assist those most in need (both pensioners and non-pensioners) to pay their energy bills and (b) assist to upgrade the energy efficiency levels of fuel poor owner occupied homes.

Recommendation 10: To help achieve the 2030 Band C target in the rented sectors, regulations in the Private Rented and Social Housing sectors need to be strongly enforced to ensure that rented properties are upgraded to Band C.

Recommendation 11: Making faster progress towards the 2030 fuel poverty strategy Band C target will make big improvements in the ability of fuel poor households to afford to heat their homes to comfortable levels. However, as noted in many publications, decarbonising the energy supply system and home heating puts upwards pressure on energy bills. It is therefore important that steps are taken to ensure there is a just transition to Net Zero. Fuel poor households must be protected from any resultant increases in their energy bills, so that they can continue to afford to heat their homes to the same level of thermal comfort.

Annex B: Committee on Fuel Poverty Members

David R. Blakemore (Chair)

David Blakemore has been a member of the Committee on Fuel Poverty since its inception in January 2016 and was appointed as Chair in November 2016. He has been reappointed as the Chair from 7 November 2019.

David has had several leading managerial and operational roles in multi-national oil companies in the UK and around the world. Until April 2015 he was Director of 13 oil and electricity generating companies in his role as Director and Manager for European Business Affairs at Phillips66 Ltd.

Liz Bisset

Liz Bisset is a housing and leadership coach and consultant. Until recently, she was Strategic Director for Cambridge City Council. Prior to that, her career spanned housing management services, new home development and community engagement, including posts as Director of Community Services for Cambridge and Head of Regeneration for Bristol City Council. Liz is also a trustee and treasurer of Cambridge United Charities and Chair of Performance and Governance, and a Non-Executive Director, of Cross Keys Homes.

Paul Massara

Paul Massara is a Chairman, Non-Executive Director and Board adviser to a number of companies in the energy technology space. He is also Chair of Sovereign Housing Association and Medicinema, a film charity. Prior to these roles, he was CEO of Npower from 2013-2015 and was also a member of Centrica Plc Executive Committee, and President of Direct Energy (Canada).

His other roles include:

- Board Director Zeigo Energy
- Board Director of Isize Technologies
- Chair of Sovereign Housing
- Chair of Medicinema
- Associate at Creative Destruction Lab, Oxford University
- He is also an investor in Electron, Verv and Habitat Energy

Jenny Saunders, CBE, DCL

Jenny Saunders has a number of current roles:

- Member of Northern Powergrid's Customer Engagement Group
- Chair of NGN's Customer Engagement Group
- Non-Executive Dir. of Affordable Warmth Solutions Community Interest Company
- Member of Innovate UK's Advisory Group: Prospering from Energy Revolution
- Associate Fellow at Durham University

Jenny was Chief Executive of National Energy Action from 2007 to 2017, and prior to that their Director of Communications. She was a member of UKERC Advisory Board (2014 – 2019).

Anuradha Singh

Anu is a board level local government and health professional. She has been a statutory Director of Social Services and has led on new relationships with communities for County Councils, City Councils and a London Metropolitan Borough Council. Anu is also Vice Chair of the Whittington Health Integrated Care Trust in north London, and from January 2020, was appointed non-executive director to the Parliamentary and Health Service Ombudsman, which is responsible for investigating complaints about poor or unfair services as a result of actions by a government department, body or the NHS.

Anu was Director of Patient & Public Participation and Insight for NHS England, ensuring that the voice of patients, service users, carers is at the heart of the way NHS works. She was also responsible for Equalities and Health Inequalities, Person Centred Care, and relationship with the Voluntary and Community Sector.

Lawrence Slade

Lawrence Slade has been the Chief Executive of the Global Infrastructure Investor Association since January 2020. Before his current appointment, he was Chief Executive of Energy UK since July 2015, and prior to this was its Chief Operating Officer when it was formed in 2012 and had specific executive responsibility for all energy supply activities including retail markets, smart metering and grids, energy efficiency, fuel poverty and consumer engagement.

Lawrence has been involved in the energy industry since the late 1990's, working in countries all over the world building an understanding of the geopolitics of energy and how the sector is central to everyday life and supports thriving economies. Lawrence ran the Energy Retail Association before Energy UK was formed and is a non-executive director of the Money Advice Trust and Fellow of the Energy Institute.