



October 2019 Interim Report

The Committee on Fuel Poverty (CFP) is an Advisory Non-Departmental Public Body sponsored by the Department for Business, Energy and Industrial Strategy (BEIS).

The CFP's role is to advise the Government on tackling fuel poverty in England. For further details on CFP's current and past work in taking forward its remit, please see its webpage on [Gov.UK](https://www.gov.uk)¹.

We plan to postpone issuing our next Annual Report until the outcome of Government's response to their recent consultation to revise the [fuel poverty strategy for England](#)². However, given that we are now nearing the Government's first fuel poverty strategy Band E milestone in 2020, and given Government's recent commitment to bring all greenhouse gas emissions to net zero by 2050 ('Net Zero'), we have decided there is a need to issue this interim advice ahead of our Annual Report.

¹ Committee on Fuel Poverty: <https://www.gov.uk/government/organisations/committee-on-fuel-poverty>

² Consultation on Fuel Poverty Strategy for England: <https://www.gov.uk/government/consultations/fuel-poverty-strategy-for-england>

Contents

October 2019 Interim Report	1
The Implications of the Net Zero Legal Commitment	3
Delivering the fuel poverty strategy for England should become an integral part of delivering the Net Zero commitment	3
Four key areas to reducing fuel poverty within Net Zero	4
Social Justice	5
Protecting the fuel poor from changes in the energy supply system	5
Protecting the fuel poor from policy impacts that could increase their fuel costs.....	5
Use of equity-weighted economics.....	6
Enforcing Housing Standards	6
Protecting the fuel poor living in private rented accommodation.....	6
Funding	7
Who pays?.....	8
Making better use of existing funding streams	9
Using a consistent price set for household energy efficiency and carbon reduction programmes.....	10
Deployment of Measures to Improve the Energy Efficiency of Homes	11

The Implications of the Net Zero Legal Commitment

Delivering the fuel poverty strategy for England should become an integral part of delivering the Net Zero commitment

The fuel poverty strategy for England, *Cutting the Cost of Keeping Warm*,³ includes a statutory target for ‘as many fuel poor households as reasonably practicable to achieve a minimum energy efficiency rating of a Band C by 2030.’ It also has two interim milestones of Band E by 2020 and Band D by 2025. Energy efficiency should and will play a major role in reducing carbon emissions and should be seen as a least regret, cost-effective early decision. This is the position supported by both the National Infrastructure Commission⁴ and the Committee on Climate Change⁵.

Net Zero means the Government commits to reducing, as far as possible, all greenhouse gas emissions, and that any remaining emissions would be balanced by schemes to offset an equivalent amount of greenhouse gases from the atmosphere, such as planting trees or using technology like carbon capture, usage and storage. Passing legislation to move to Net Zero by 2050 will have a dramatic impact across all Government departments and society, as Government seeks to set out a credible plan and associated funding to deliver the target. Delivering this commitment will require billions to be invested across multiple sectors of the UK’s economy.

It is within this context that the targets to reduce levels of fuel poverty should now be viewed as forming an important subset of the overall Net Zero plan. Given 10.9% of households in England are in fuel poverty, delivering the fuel poverty strategy’s energy efficiency measures should be an important part of the move to lowering greenhouse gas emissions from homes. Improving the energy efficiency levels of fuel poor homes should be prioritised, using the principle of treating the “worst first”. This will have beneficial impacts of improving the health and wellbeing of fuel poor householders and help protect them against any increase in energy prices caused by the need to decarbonise the energy system.

Under Net Zero, the economics of home energy efficiency measures will need to be assessed not in the simple narrow terms of energy cost savings payback on investment, but rather in the context of what practical measures are needed to meet Net Zero at the lowest carbon cost. Achieving Net Zero will require some challenging decisions to be made early on in order to ensure that companies and supply chains have sufficient time to adapt to the required changes. For example, the decisions on whether to blend hydrogen into the natural gas system, and the decision on whether or not to move the full system to hydrogen and whether to do this on a regional basis. The timing of these decisions will have major implications on what energy efficiency measures and heating systems are put in place and when.

³ Fuel Poverty Strategy for England, 2014: <https://www.gov.uk/government/consultations/cutting-the-cost-of-keeping-warm-a-new-fuel-poverty-strategy-for-england>

⁴ National Infrastructure Commission: <https://www.nic.org.uk/>

⁵ Committee on Climate Change: <https://www.theccc.org.uk/>

Under the new Net Zero commitment, the focus of delivering the fuel poverty strategy needs to shift from improving energy efficiency levels at the lowest cost, to one that also focuses on future-proofing homes so that they can easily be adapted to become the low carbon homes in the future. The investments required to deliver the fuel poverty strategy milestones and target should be seen as a sub-set of those required to achieve the Net Zero commitment.

There is a precedent for this approach. The Ministry of Housing, Communities and Local Government (MHCLG), October 2019 Consultation on the Future Housing Standard⁶ recognised the need to raise the energy efficiency standards for new homes commencing in 2020 to start to prepare for their 2025 proposal to introduce a Future Homes Standard that will reduce CO2 emissions from new homes by between 75 and 80%⁷.

The consultation proposes to future-proof homes built from 2020 onwards so that they can easily be adapted to become low carbon homes in the future. The best example is the proposal to allow the installation of new gas boilers, but they must be installed to heat central heating water circulation to a lower temperature than today's specifications, so that radiator size is increased. This will make the radiator sizes compatible with any future installation of electric heat pumps and hence minimise disruption to the occupier if a heat pump is installed. This could be the case if the gas grid is not decarbonised in the future. Even if the gas grid is not decarbonised, designing gas boilers with lower water circulating temperatures will allow the gas boiler to operate more efficiently in the interim.

The consultation's Impact Assessment shows that MHCLG's proposals will increase the average new house build cost by £4,857 and lower the average energy bill by £257 per year. Assuming that the builder will pass through the additional cost to the purchaser, this is equivalent to a 19 year simple payback for the householder. When viewed strictly through the lens of energy bill savings, this is a poor investment. However, MHCLG is taking a macro view of economics in the context of achieving Net Zero at the lowest carbon cost.

Four key areas to reducing fuel poverty within Net Zero

Four main areas related to reducing levels of fuel poverty that we recommend Government focuses on when developing their plans for Net Zero are: **Social Justice, Enforcing Housing Standards, Funding and Deployment**. These areas are also set out in CFP's response to the Government's consultation on the Fuel Poverty Strategy for England⁸.

⁶ Consultation on Future Housing Standard: <https://www.gov.uk/government/consultations/the-future-homes-standard-changes-to-part-l-and-part-f-of-the-building-regulations-for-new-dwellings>

⁷ Green standard for new build homes: <https://www.gov.uk/government/news/housing-secretary-unveils-green-housing-revolution>

⁸ CFP's response to BEIS Fuel Poverty Strategy Consultation July 2019: <https://www.gov.uk/government/publications/cfp-response-to-consultation-fuel-poverty-strategy-for-england>

Social Justice

Protecting the fuel poor from changes in the energy supply system

It is clear that the energy system is going through, and will go through, a number of significant changes:

- 1) Movement from a centralised system to a more decentralised, digitalised system;
- 2) An increase in intermittent renewables;
- 3) An increase in new technology such as electricity storage;
- 4) A greater cross over of transport (electric vehicles and electric trains); and
- 5) The need to decarbonise heating.

Within this context it is critical that regulators and policy makers ensure that all their decisions consider that there is a fair transition, and that the poorest in society are not left behind.

A particular concern of the Committee is that the marginal cost of electricity could reduce over time as more zero marginal cost production comes online (for example: solar, wind, nuclear and anything with a Contract for Difference⁹). At the same time, the proportion of fixed costs could increase (fixed connection charges and payments for government policy). If this were to occur, we would have two main concerns:

- a) that low users would be disproportionately worse off and paying for a greater proportion of the systems changes than they would access; and
- b) if evaluated solely on cost savings to the consumer or marginal costs to the system, the incentives to save energy would be reduced as the marginal cost is low in proportion to the total bill.

Protecting the fuel poor from policy impacts that could increase their fuel costs

To achieve Net Zero will require the phasing out of high carbon fuels such as heating oil. This was flagged in the Clean Growth Strategy¹⁰, which has an ambition to phase out the installation of high carbon fossil fuel for heating in new and existing homes in the 2020's.

Whilst in many cases, the economics for investing in energy efficiency and carbon reduction measures are aligned, there may be instances where this is not the case. For example, if homes are required to cease installing boilers using heating oil in the 2020's, a switch to electric heating via an Air Source Heat Pump (ASHP) may in the short term increase the cost to the householder. If such a phase out of using high carbon fuels is required before cost effective technological solutions and fair tariffs are developed, fuel poor households should not be required to either fund alternatives or even if alternatives are installed cost-free,

⁹ Contract for Difference: <https://www.gov.uk/government/publications/contracts-for-difference/contract-for-difference>

¹⁰ Clean Growth Strategy: <https://www.gov.uk/government/publications/clean-growth-strategy>

they should be protected against any subsequent increase in energy costs. If such funding and protection against resultant rising energy costs cannot be provided, replacement of broken or inefficient oil, solid fuel and gas boilers should be allowed in the near future, unless there is an expectation of future replacement by other technologies within the 10 to 15 year lifetime of boilers. By this time, there should be a clear roadmap for decarbonizing the gas grid by moving to hydrogen or lowering the costs for equipment that rely on electricity.

Use of equity-weighted economics¹¹

Improving energy efficiency of fuel poor homes is a social programme, therefore when evaluating the cost effectiveness of installing energy efficiency measures, equity weighted economics should be used. This would avoid the instance where the programme for the Energy Company Obligation (ECO3)¹² that was selected, uses different economics (£383 million) to the option which has the best focus on fuel poor homes.

Enforcing Housing Standards

Protecting the fuel poor living in private rented accommodation

Unless regulations to improve the energy efficiency levels of privately rented homes are robustly implemented and enforced, tenants risk living in homes whose energy efficiency standards fall behind improvements made by owner occupied and new homes. Those in privately rented accommodation who cannot afford to pay high energy bills, would suffer as a result. 35% of fuel poor households live in privately rented sector (PRS) accommodation. This is proportionately higher than the percentage of PRS homes across England (20%). In particular, fuel poor households occupy 58% of the privately rented Band F and G homes, and on average would need over £1,000 per annum reduction in their fuel bill in order not to be classed as fuel poor. We believe that PRS landlords should be held accountable for improving the energy efficiency standards of their properties in line with the fuel poverty strategy 2020/25 milestones and 2030 target.

The revised Minimum Energy Efficiency Standards (MEES)¹³, which came into effect this year, sets a cap of £3,500 per property contribution from landlords to bring their F and G rated properties up to EPC Band E by 2020 (with some exemptions¹⁴). We welcomed this amendment but are concerned that the revised regulation is not being robustly enforced. We therefore commissioned research to examine the implementation and enforcement

¹¹ HMT's Green Book:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf

¹² ECO3: <https://www.gov.uk/government/consultations/energy-company-obligation-eco3-2018-to-2022>

¹³ Minimum Energy Efficiency Standards (MEES): <https://www.gov.uk/guidance/domestic-private-rented-property-minimum-energy-efficiency-standard-landlord-guidance>

¹⁴ PRS exemptions register: <https://prsregister.beis.gov.uk/NdsBeisUi/used-service-before>

challenges (research published on CFP webpage: *Enforcing regulations to enhance energy efficiency in the private rented sector: research report and CFP's recommendations*¹⁵).

The study found low levels of understanding and enforcement action by Local Authorities. Although there were some examples of good practice, most Local Authorities reported lack of resources and understanding, compounded by unreliable or difficult to access data sources. Data at the time relates to the 2016 EPC lodgement data, which revealed that around 50% of a sample of the PRS property EPC lodgement data was found to be inaccurate and out of date (this has since been addressed by MHCLG¹⁶), and that there was no consistent data to identify landlords. Many landlords were also unclear about their obligations under MEES.

The study concluded that a national landlord registration scheme is the most efficient and effective means for educating landlords and enforcing MEES. England is the only UK country that does not have a national landlord registration scheme in place. The CFP support setting up a national PRS landlord registration scheme for England, funded by a landlord registration fee and accessible to Local Authorities, who must be adequately resourced to carry out enforcement. The study also showed that the fines for non-compliance by landlords need to be set at a level that provides a greater disincentive for non-compliance. This issue also needs to be addressed.

We recognise that a national landlord licensing scheme is not supported by the MHCLG. Their main focus and that of the Local Authorities, is on enforcing PRS regulations on a narrow sector of the private rented landlords (the so called 'rogue landlords').

We believe that there is a wider picture on standards across the PRS that is reinforced by Net Zero's need to decarbonise housing, requiring improved energy efficiency levels of all properties. This will require significant education of property owners, as well as strict enforcement of new standards.

For the private rented sector, the Net Zero commitment is therefore an additional justification for a national landlord licensing scheme. Without this, we do not believe that the Government will achieve their stated aims for improving the worst effected PRS properties and decarbonising homes. If the PRS does not deliver its share of Net Zero, then costs will be incurred in other sectors of the economy to balance any under-performance.

Funding

It is important that future milestones and targets for achieving Net Zero and the fuel poverty strategy for England are costed and funded. Funding the costs for delivering the fuel poverty strategy for England needs to be integrated into the Net Zero plans. Achieving the Net Zero target will require substantial investment across all sectors of the economy

¹⁵ Research and CFP recommendations: <https://www.gov.uk/government/publications/enforcing-regulations-to-enhance-energy-efficiency-in-the-private-rented-sector-research-report-and-cfps-recommendations>

¹⁶ MHCLG, since than is now publishing updated bulk EPC data: <https://www.gov.uk/guidance/energy-performance-certificates-opt-out-of-public-disclosure>

and will therefore require all Government departments to coordinate and prioritise implementing their necessary policies. For household energy efficiency, consideration should be given to the following areas:

Who pays?

The Committee estimated (CFP's 2018 Annual Report¹⁷) that the cost to deliver the current fuel poverty strategy (developed in 2015) is as follows:

• 2020 Band E milestone	£ 1.8 billion
• 2025 Band D Milestone	£ 5.6 billion
• 2030 Band C Target	£12.4 billion
Total	£19.8 billion

Currently, 47% of fuel poor households live in Owner Occupied accommodation with the balance in Privately Rented (35%) and Social Housing (18%). We believe that for rented accommodation, the landlord should pay to improve the energy efficiency standards of their properties. For low income fuel poor owner occupied households, funding should be provided by Government or other parties. We therefore recommend that:

- **The Clean Growth Strategy proposal for continuing a home energy efficiency programme through to 2028 is primarily focused on owner occupied fuel poor households (note: the current Energy Company Obligation 3 is only 30% focused on fuel poor households).**
- **The PRS MEES Regulations are extended to include achieving Band D in 2025 and Band C in 2030, and that the cap on landlords' expenditure is reviewed and increased to achieve the fuel poverty target.**
- **The National Infrastructure Commission's recommendation to improve Social Housing energy efficiency to Band C by 2030 is acted on, by introducing new targets and incentives for social landlords to make improvements as part of their business plans.**

For the balance of funding needed, an enduring recurrent funding stream should be created to deliver the fuel poverty target by 2030.

The most important short-term funding decision is for Government to support our recommendation for a £1.1 billion Fuel Poverty Clean Growth Challenge Fund to achieve the first milestone¹⁸ (full proposal details on the CFP webpage).

¹⁷ CFP 2018 Annual Report: <https://www.gov.uk/government/publications/committee-on-fuel-poverty-annual-report-2018>

¹⁸ CFP proposal for a Clean Growth Challenge Fund: <https://www.gov.uk/government/publications/committee-on-fuel-povertys-challenge-fund-proposal-for-the-period-2020-to-2022>

Without this funding, the 2020 milestone will be missed. At the beginning of the strategy (Annual Fuel Poverty Statistics 2014 – 2012 data¹⁹) there were 292,000 fuel poor Band F and G homes, and we estimate that without the additional funding, there will still be 160,000 in 2020.

Making better use of existing funding streams

When looking for sources of funding to improve the energy efficiency levels of owner occupied fuel poor homes, we have consistently recommended that better use of existing funds should be prioritised ahead of finding new funds.

In the Fuel Poverty Strategy, 2015, *Cutting the Cost of Keeping Warm*²⁰, it was demonstrated that between the three main programmes related to helping householders pay their energy bills and install energy efficiency measures, there were more than adequate funds to deliver the fuel poverty strategy’s milestones and targets:

	Annual Spend £ billions per year for England
Energy Company Obligation (ECO)	0.7
Warm Home Discount (WHD)	0.3
Winter Fuel Payment (WFP)	1.8
Total	2.8

As can be seen from above, three times as much money is spent assisting householders to pay their energy bills (WHD and WFP) than to improve the energy efficiency of their homes (ECO). Furthermore, these programmes are poorly targeted at those in fuel poverty. However, to date, very little action has been taken to re-target these funds on those most in need or to increase the percentage of funds focused on energy efficiency.

Looking to the future, the most obvious programme to optimise is the Winter Fuel Payment (WFP) which is paid to all pensioners and has a current annual budget of £1.7 billion per year. The BEIS 2018 Annual Fuel Poverty Statistics²¹, show:

- households with a retired Household Reference Person have the lowest likelihood of being in fuel poverty at only 7.6% (Figure 3.22); and
- non-fuel poor pensioners have the second highest adjusted median income of all household groups (Figure 3.23).

However, the WFP is not paid to the 80% of fuel poor households who are not pensioners.

¹⁹ Annual Fuel Poverty Statistics 2014 – 2012: <https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2014>

²⁰ Cutting the Costs of Keeping Warm: <https://www.gov.uk/government/publications/cutting-the-cost-of-keeping-warm>

²¹ Fuel poverty statistics report for 2019 (from 2017 data): <https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2019>

Together with the Committee on Climate Change (CCC), we commissioned research (Centre for Sustainable Energy, '[Tackling fuel poverty, reducing carbon emissions and keeping household bills down: tensions and synergies](#)'²²), which shows that by changing the focus of the WFP and WHD programmes to assisting those most in need, £0.8 billion per year of funds could be transferred from supporting paying energy bills, to supporting installing energy efficiency measures in fuel poor homes. We therefore recommend that under Net Zero:

The Winter Fuel Payment and Warm Home Discount are focused on helping those households most in need to pay their energy bills, and that the remaining funds are used in new programmes to install energy efficiency and low carbon heating measures in the homes of the fuel poor.

Using a consistent price set for household energy efficiency and carbon reduction programmes

A more consistent approach needs to be used when evaluating programmes to reduce carbon emissions and programmes to raise household energy efficiency standards. Currently the Committee on Climate Change (CCC) develops their recommendations based on 'the least cost of reducing carbon emissions', whereas for household energy efficiency programmes, BEIS use Treasury's Green Book²³ pricing to calculate the costs and benefits. This results in BEIS sometimes evaluating the CCC's energy efficiency recommendations as uneconomic. Examples include:

- The CCC stating that reducing carbon emissions from off-gas grid homes is highly economic, whereas for the ECO3 programme, despite 221,000 fuel poor households living in rural villages, hamlets and isolated dwellings, the ECO3 programme (2018 to 2022) set a 'rural' definition as 'areas that are outside of settlements of 10,000 or more' as it was deemed to be too expensive to reach villages and remote locations.²⁴
- The CCC recommended in their Central Scenario for the Fourth Carbon Budget (2023 to 2027)²⁵ that 2 million solid wall home insulation measures should be installed and stated that 'targeted support mechanisms for fuel poor households will be necessary to allow them to take up solid wall insulation which has high up-front costs'. However, the 2019 (2017 data) Annual Fuel Poverty Statistics, show that only 57,000 out of a total of 1,076,000 fuel poor households with solid walls have insulation and the ECO3 (2018 to 2022) programme only has a target of installing 17,000 solid wall insulation measures per year and is only 30% focused on fuel poor households.

²² Centre for Sustainable Energy research: <https://www.gov.uk/government/publications/tackling-fuel-poverty-reducing-carbon-emissions-and-keeping-household-bills-down-tensions-and-synergies>

²³ HMT's Green Book: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

²⁴ BEIS stated that they use an established rural definition rather than choosing one specifically for ECO, and that they have an uplift for insulation in off-gas homes. A rural minimum for just villages, hamlets and isolated dwellings would likely mean reducing the overall target and treating fewer homes overall.

²⁵ CCC Fourth Carbon Budget: <https://www.theccc.org.uk/publication/the-fourth-carbon-budget-reducing-emissions-through-the-2020s-2/>

Alignment of approach between the CCC and BEIS when evaluating programmes to reduce carbon emissions and programmes to raise energy efficiency standards will also reduce the risk of installing ‘low cost’ energy efficiency measures that are later deemed inadequate or redundant from the perspective of achieving a carbon budget or Net Zero. Examples could include installing insufficient loft insulation or installing fossil fuel based central heating in a way that is inconsistent with the later use of heat pumps or other carbon neutral or renewable products. To achieve consistency would require that when surveying a fuel poor house for energy efficiency upgrades, it should be assessed for how best to achieve Band C and other Government targets (e.g. phase out heating oil, Net Zero, and others). Any energy efficiency measures installed to raise the SAP rating by one band, should then need to be consistent with the ultimate aim of achieving Band C and other Government targets.

Deployment of Measures to Improve the Energy Efficiency of Homes

Given the potential for a much larger programme of energy efficiency associated with Net Zero, it may be that it makes more sense to look at local delivery mechanisms, where whole areas can be addressed at once and thereby reduce costs. Within this context it may make sense to look at whether the District Network Operators would be a more suitable delivery channel than Energy Supply Companies. The introduction of the next price controls for the network companies running the gas and electricity transmission and distribution networks (RIIO2: Revenue=Incentives+Innovation+Outputs²⁶) provides an opportunity to explore this with Ofgem and the operators. However, it is important that fuel poor homes are still prioritised for assistance.

The Committee is keen to support the integration of fuel poverty action into the work of local public sector agencies. Local Sustainability and Transformation Partnerships²⁷ have brought health, local government and the community sector together to align in improving the population’s health and wellbeing. The Committee is keen to see fuel poverty addressed when developing local Health Inequalities Plans²⁸, through:

- clear targeting of commissioning allocations;
- clear delivery via social prescribing; and
- clear prioritisation within local Winter Resilience Plans.

Local agencies are also bringing their data together in order to model and target key vulnerable populations. The Committee is keen to see fuel poverty action benefit from these emerging targeting tools.

Committee on Fuel Poverty Interim Report, October 2019

²⁶ Ofgem RIIO: <https://www.ofgem.gov.uk/network-regulation-riio-model/network-price-controls-2021-riio-2/what-riio-2-price-control>

²⁷ NHS Local Sustainability and transformation partnerships: <https://www.england.nhs.uk/integratedcare/stps/>

²⁸ NHS Long Term Plan, the Equality and Health Inequalities Impact Assessment: <https://www.england.nhs.uk/publication/the-nhs-long-term-plan-equality-and-health-inequalities-impact-assessment/>