Campaigning for Warm Homes

The Long Cold Winter:

Beating fuel poverty

By Jenny Bird, Ron Campbell and Kayte Lawton

ippr and NEA

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Contents

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About NEA

National Energy Action (NEA) is a national charity working to reduce and, ultimately, eradicate fuel poverty. NEA seeks to achieve these objectives through policy development and representations to key agencies including government, energy suppliers and Ofgem. NEA has a campaigning role in pressing for additional programmes and resources to meet the needs of vulnerable energy consumers.

NEA also undertakes practical projects to address specific issues related to fuel poverty such as energy advice and training, innovation in technologies for hard-to-treat housing and schemes that promote engagement with socially excluded households.

NEA works across England through the charity's headquarters in Newcastle upon Tyne and through offices in all of the English regions. NEA Wales and NEA Northern Ireland undertake similar roles within the devolved nations.

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Executive summary

The winter of 2009/10 has been one of the coldest the UK has experienced for decades. While the snow and ice have inconvenienced millions with disruptions to transport services and dangerous driving conditions, the cold weather will have caused untold misery for people living in 'fuel poverty'. In fact, more and more people are being plunged into fuel poverty as energy prices rise and government programmes to tackle this major social problem fail to keep up with the scale of the challenge.

This report reviews the current policy landscape on fuel poverty and asks where policy should go next, if fuel poverty is to be addressed effectively in the UK.

What is fuel poverty and what commitment is there to tackle it?

The Government classifies a household as being in fuel poverty if it needs to spend more than 10 per cent of its income on fuel to maintain an adequate level of warmth, usually defined as 21 degrees for the main living area, and 18 degrees for other occupied rooms.

The UK government, together with the devolved administrations, has a commitment to end fuel poverty by 2016 for England, Scotland and Northern Ireland and by 2018 for Wales, and among vulnerable households by 2010. It is almost certain that the 2010 target will be missed and it is unlikely that the level of resources needed to eliminate the problem by 2016/18 will be delivered.

Fuel poverty is caused by three different factors:

- Low household incomes
- High energy prices
- Poor energy efficiency in homes.

While any one of these aspects can result in people being unable to afford to adequately heat their homes, it is energy prices that have been the main driver of fuel poverty trends in the UK over the last 15 years. Levels of fuel poverty fell in the early 2000s when increased competition in the energy sector pushed prices downwards. However, the number of people living in fuel poverty has been increasing since around 2003, driven mainly by dramatic increases in domestic energy prices, which have reflected wholesale oil and gas price rises.

As things stand, fuel poverty looks set to get worse in the future. Energy prices are likely to continue to increase, driven in part by the costs of meeting our climate change obligations, but mainly by predicted rises in the cost of wholesale oil and gas owing to growing global demand for oil and technical barriers to increasing supply. At the same time, the recession and its aftermath is likely to reduce incomes for some, either through loss of jobs or through any reductions in public spending on fuel poverty programmes and/or benefits.

The Government's current fuel poverty programme consists of a number of policy measures, which aim to tackle each of the causes of fuel poverty. These measures fall broadly into two categories – publicly funded programmes paid for ultimately by taxpayers, and programmes paid for by energy consumers, delivered via energy companies.

Publicly funded programmes include:

- Winter Fuel Payments and Cold Weather Payments, aimed at boosting incomes
- Schemes to improve energy efficiency and housing quality, such as Warm Front and the Thermal Comfort element of the Decent Homes programme, and their equivalents in the devolved administrations.

Programmes funded via the energy suppliers include:

- Measures aimed at reducing bills for the most vulnerable customers, which are voluntary at the moment but likely to become mandatory in the near future

- Schemes to help people improve the energy efficiency of their homes, such as the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP).

It is difficult to quantify the exact cost of eradicating fuel poverty entirely in the UK since volatile energy prices, the economic cycle and weather patterns can all affect the number of people in fuel poverty. However, a number of studies have attempted to assess the cost of bringing the housing stock up to a minimum level of energy efficiency and the extent to which this would reduce fuel poverty. The studies suggest that total expenditure might range between £9.2bn and £64bn (the latter amount being spread over seven years between 2009 and 2016). The upper end of this range vastly exceeds current planned spending levels on fuel poverty.

Recommendations

The current fuel poverty strategy was devised at a time when energy prices were falling but the context has now changed significantly – energy prices are projected to rise and new technological developments could offer fresh options for tackling fuel poverty. We therefore make the following recommendations for a radical rethink of the fuel poverty strategy.

1. The UK government, working with the devolved administrations, should commission an independent, wide-ranging review of the UK's fuel poverty strategy, which would provide a more fundamental rethink than the current review being undertaken by the Department for Energy and Climate Change (DECC).

This review should investigate the following questions:

- How can the trade-off between the need for long-term investment in energy efficiency – for a sustainable and cost-effective solution – versus short-term spending on income support and price reduction measures be managed to ensure a greater emphasis on energy efficiency?
- Should the term 'fuel poverty' be redefined to take account of rising fuel prices and to avoid perverse incentives when developing new policy measures? The current definition means that reducing energy bills will result in fewer people being counted as 'fuel poor' than if incomes were increased by an equivalent amount.
- Are targets to eliminate fuel poverty appropriate, since factors beyond government's control affect levels of fuel poverty?
- How can the costs of fuel poverty programmes be met in a fair way? The current move towards loading more of the costs on to energy consumers results in a more regressive system of payment than using public money would.
- Who should deliver fuel poverty programmes? Is there scope for increased partnership working with organisations like local authorities or energy distributors as well as energy suppliers?
- What role is there for new technologies like smart meters and microgeneration technologies in tackling fuel poverty?

Some interim measures will be required while the review is being conducted, to improve the current strategy. These are set out in the following recommendations.

2. Pay-as-you-save type programmes to deliver energy efficiency improvements to homes need to be supplemented by programmes providing measures free of charge to fuel-poor households.

Fuel-poor households will not be able to benefit from pay-as-you-save schemes (as energy efficiency improvements for fuel-poor households will lead to warmer homes, rather than reduced energy bills, meaning that they will not have cash savings from which to pay back

loans), so will need financial assistance to improve the efficiency of their homes. Ideally, this should be through a publicly-funded scheme.

3. The UK government and devolved administrations should announce plans to introduce minimum energy performance standards for all homes, at a specified date in the future.
This would ensure action from those who do not act voluntarily when the PAYS scheme is introduced. Safeguards should be put in place to protect vulnerable groups, such as the elderly.

4. The UK government and devolved administrations should consider introducing more stringent minimum energy efficiency standards for rental properties.
Only those meeting adequate energy efficiency levels would be let. This would require additional resources for local authorities to enable strong enforcement and, possibly, incentives to landlords. In England, the Housing Health and Safety Rating System has not delivered improvements in the efficiency of homes in the private rented sector because it has not been adequately enforced.

5. The UK government should investigate ways to ensure that the costs of the mandatory price support measure are passed on to customers in the least regressive way possible.
If the price of offering discounts to fuel-poor customers is passed on equally to all customers, people on lower incomes will end up paying proportionately more towards the costs of the scheme. Linking costs to energy use might be one option since people on higher incomes tend to use more energy than those on lower incomes.

6. The UK government and devolved administrations need to continue their efforts to improve the uptake of Pension Credit to maximise the benefit of the Energy Rebate Scheme.
Guarantee Pension Credit recipients will automatically receive an £80 rebate from their energy bills under the Energy Rebate Scheme. However, between 20 and 30 per cent of people who are entitled to Pension Credit do not claim it, meaning they will also miss out on the Energy Rebate Scheme.

7. The UK government should commit to match any future increased spending requirements imposed on energy suppliers with an equal increase in publicly-funded fuel poverty programmes.
To make sure that the balance between government- and energy company-led programmes does not tilt further towards the latter, which would be regressive, the UK government should commit to match any increases in spending requirements on energy companies. Fuel poverty programmes that are funded by energy suppliers are more regressive than those funded through the taxation system because all energy customers contribute equally towards the costs of the schemes, rather than those on higher incomes paying a greater proportion of the costs.

8. The rebate created by mandatory social price support should be offered in addition to the measures already offered under the voluntary agreements.
Some commentators have suggested that customers should receive either a rebate or a social tariff, but not both. However, this goes against the spirit of the Department for Work and Pensions sharing data on Pension Credit recipients in order to provide benefits for those people. Therefore eligible customers should be able to receive both forms of assistance.

1. Introduction

The winter of 2009/10 has been one of the coldest the UK has experienced for decades. While the snow and ice have inconvenienced millions with disruptions to transport services and dangerous driving conditions, the cold weather will have caused untold misery for people living in fuel poverty.

Living in a cold home is not just an unpleasant experience: inadequately heated houses can have serious health implications, particularly for the old and very young and for people with a disability, and can even be a factor in premature death. At the same time, cold homes are likely to be poorly insulated, meaning more fuel is burned to maintain warmth, adding unnecessarily to the UK's carbon emissions. Tackling fuel poverty could create real returns, both by improving people's well-being and helping the UK to reduce its contribution to dangerous climate change.

The Government's classification of fuel poverty:

'A household is said to be in fuel poverty if it needs to spend more than 10 per cent of its income on fuel to maintain an adequate level of warmth, usually defined as 21 degrees for the main living area, and 18 degrees for other occupied rooms.'
(Department of Energy and Climate Change 2009a)

The Government has rightly recognised fuel poverty as an important issue and since 2001 has had a fuel poverty strategy to take action against the problem. Nonetheless, the number of people in fuel poverty has been rising steadily over the last five years. It now seems likely that the Government's targets to eradicate fuel poverty among vulnerable groups by 2010 and among all households by November 2016 (or 2018 in Wales) will be missed. It is clear the fuel poverty strategy is not delivering.

This report reviews the current policy landscape on fuel poverty and asks where policy should go next.

Methodology

The report is based on research carried out in the last three months of 2009. It uses a desk-based review of evidence supplemented by a series of interviews with expert stakeholders from the following organisations: Age Concern, All-Party Parliamentary Warm Homes Group, Centre for Sustainable Energy, Centrica, Consumer Focus, Department of Energy and Climate Change (DECC), EDF, Energy Saving Trust, E.ON, Fuel Poverty Action Group, Help the Aged, npower, Ofgem and Scottish Power. The interviews were conducted in October and December 2009.

Structure of the report

We begin in the next section by setting out the context, highlighting trends in fuel poverty and its underlying causes. Section 3 then outlines the various policy measures that comprise the Government's current fuel poverty strategy, while Section 4 examines the scale of the challenge if fuel poverty is to be eradicated permanently. Sections 5 and 6 look to the future and provide recommendations for how the fuel poverty agenda should be taken forward. In Section 5 we argue that a radical review of the entire fuel poverty strategy is needed while Section 6 sets out some specific steps that should be taken in the interim. Section 7 concludes.

2. Fuel poverty in the UK

The Government introduced targets for the eradication of fuel poverty in 2001 (Department for Trade and Industry [DTI] and Department of the Environment [DoE] 2001). These targets commit the Government to ending fuel poverty in England by 2010 for vulnerable households[1], and for all households by November 2016. The devolved administrations in Scotland and Northern Ireland have near-identical targets, with Wales having a commitment to end fuel poverty slightly later, by 2018. Despite these actions, concerns about the extent of fuel poverty in the UK have increased in recent years, driven primarily by rising energy prices.

In this section we briefly set out the definition of fuel poverty and recent trends, against the UK government and devolved administration's targets. We also explore the impact that current and future trends in energy prices, employment and household incomes may have on fuel poverty in the future.

Fuel poverty: origins and trends

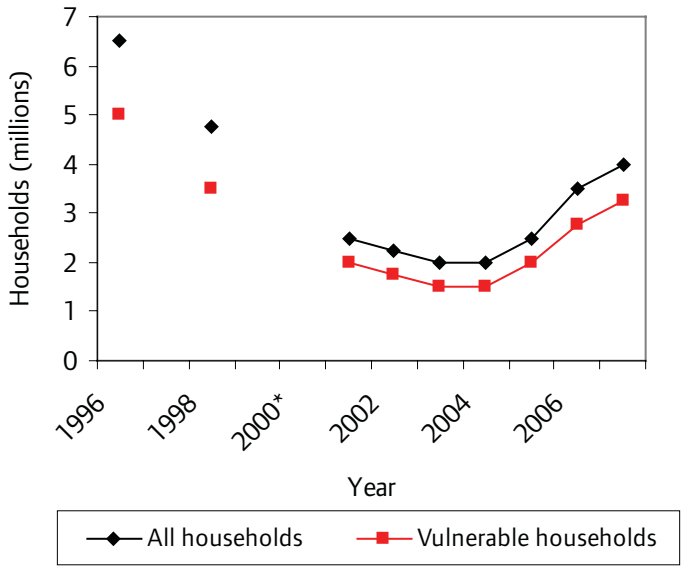
Fuel poverty has its roots in three different challenges:

- Low household incomes: although there is not a simple causal relationship between income and fuel poverty, there is a clear overlap between the two.
- Energy prices: higher domestic energy prices result in greater numbers of people in fuel poverty.
- Domestic energy efficiency standards: poor quality housing leads to inefficient use of energy and higher energy bills.

Figure 2.1 shows trends in fuel poverty in the UK over the last decade. Although the number of cases fell significantly in the late 1990s and the early part of the 2000s, numbers have been on the rise again since 2004/5. These trends have been driven primarily by changes in energy prices. Figure 2.2 shows how domestic gas and electricity prices decreased between 1996 and 2001 following the introduction of competitive energy markets. However, prices have been rising since 2003/04, mainly as a result of increasing wholesale costs. The rate of increase has been particularly sharp since 2005 and domestic energy prices have grown much more than average consumer prices (Figure 2.2).

Figure 2.1: Fuel poverty levels in the UK, 1996–2007

Source: DECC 2009d



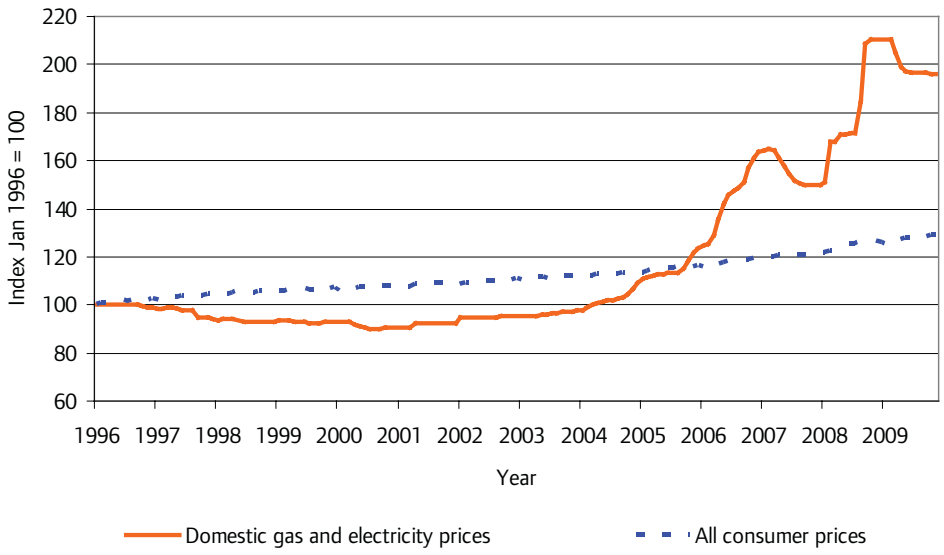
**data not available for 1997, 1999 or 2000*

1. A vulnerable household is one that contains children, or people who are elderly, ill or disabled (DTI and DoE 2001).

It should be noted that other factors including the introduction of more generous benefits (such as Pension Credit, tax credits and Winter Fuel Payments) and some improvements in domestic energy efficiency have had a beneficial effect on the number of people in fuel poverty, but energy prices have remained the overriding driving force (Energy Action Scotland and National Energy Action 2009, Department of Energy and Climate Change [DECC] 2009a).

Figure 2.2: Changes in UK consumer prices 1996–2009

Source: Office for National Statistics 2009a



There is considerable variation in the overall incidence of fuel poverty across the four nations of the UK, with particularly high rates in Scotland, Wales and Northern Ireland, as Table 2.1 shows. This could be explained in part by the higher levels of income poverty in Wales and Northern Ireland (Department for Work and Pensions [DWP] 2009), and the colder weather in Northern Ireland and Scotland. Scotland, Wales and Northern Ireland also have a higher proportion of properties that do not have access to mains gas and more properties that are classed as 'hard-to-treat' for fuel poverty purposes than England does. In Northern Ireland there is also no real competitive energy market in the domestic sector.

Table 2.1: Fuel poverty in the nations of the UK, July 2009

Nation	No. of fuel-poor households	Fuel-poor households as % of all households
England	3,750,000	17%
Scotland	810,000	36%
Wales	320,000	26%
Northern Ireland	250,000	38%
United Kingdom	5,130,000	20%

Source: NEA analysis of the effects of trends in domestic energy prices.
Note: Figures may not match with official data, which tend to lag several years behind the current situation.

Future drivers of fuel poverty

Our interviews with fuel poverty experts revealed a consensus that three key drivers are moving in the wrong direction:

1. Energy prices look set to continue rising for the foreseeable future.

2. Household income may decline in the short term as a result of the recession and the associated increase in worklessness.

3. The likely reduction in public spending from 2010/11 to reduce the fiscal deficit could reduce the scope for government intervention to tackle fuel poverty.

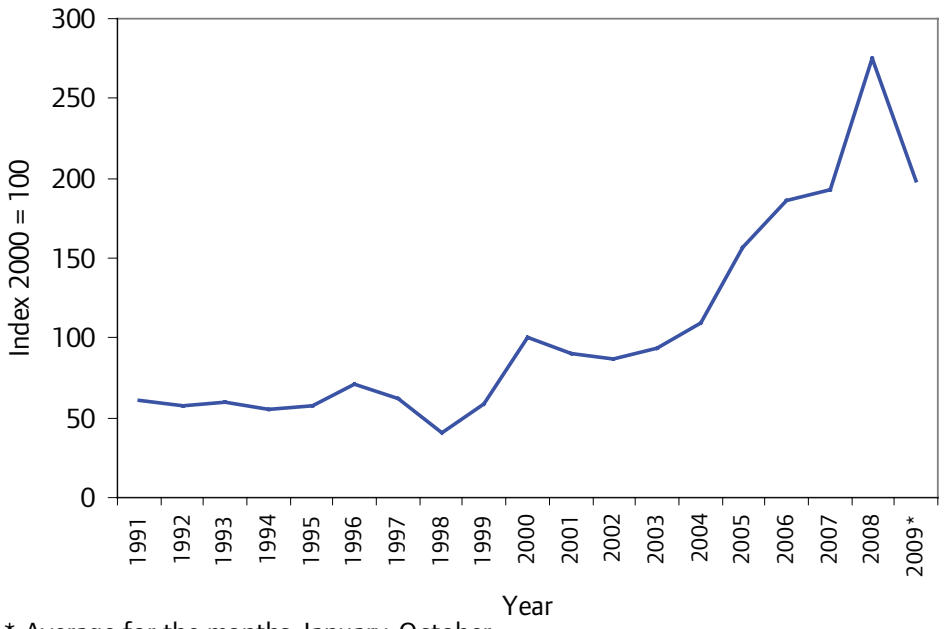
This means that it is extremely unlikely that the Government will achieve its 2010 target on fuel poverty, and prospects for the 2016/18 target are not good either.

Energy prices

Rising oil and gas prices, infrastructure investment programmes and climate change policies will all add to the cost of domestic bills over the next decade. As Figure 2.3 shows, oil prices have shown an upward trend since the early 2000s, becoming increasingly volatile towards the end of the decade (as demonstrated by the sharp peak in oil prices in 2008). Gas prices are linked to oil prices and so have followed a similar trajectory. These trends are expected to continue in future decades as the combined impact of increasing global demand – particularly from emerging economies like China – and technical barriers on the supply side push up prices.

Figure 2.3 Index of crude oil prices, 1991–2009

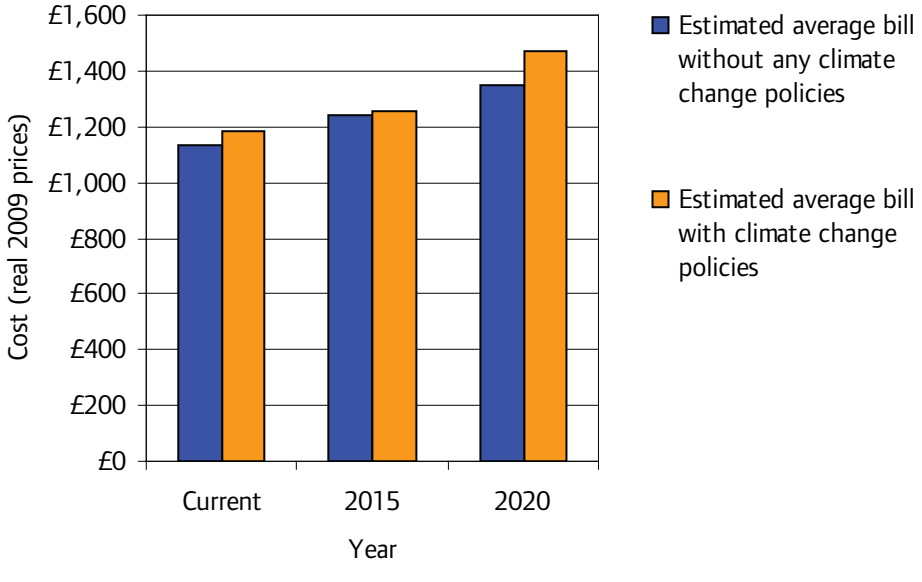
Source: DECC Energy Statistics Monthly Tables, December 2009



* Average for the months January-October

Figure 2.4: Estimated impact of climate change policies on domestic energy bills

Source: HM Government 2009b



Policies to tackle climate change[2] will also result in additional costs on domestic energy bills. The Government estimates that the package of policy measures set out in its Low Carbon Transition Plan will add £125 to the average energy bill in 2020, representing a 9 per cent increase on current energy bills (HM Government 2009a). Figure 2.4 shows how prices in the UK are expected to change as a result of climate change policies. It is also worth noting that infrastructure investment, which is necessary to maintain energy security, is also likely to increase energy bills.

Household income

The 2008/9 recession has resulted in increased levels of unemployment and worklessness in the UK. In the three months to June 2009, there were 3.3m workless households (those in which no adult is doing any paid work), up by 239,000 from a year earlier (Office for National Statistics [ONS] 2009b). This means that an extra 500,000 working-age adults and 167,000 children are now living in households where no one is working.

An increase in worklessness at the household level is particularly problematic in the context of fuel poverty because the vast majority of these households will have experienced a fall in income. Although we do not yet know what proportion of newly workless households are now experiencing fuel poverty, it is likely that a significant number are. Although there are signs that the economy is now in recovery and the labour market is starting to stabilise, there are concerns about the pace of recovery and the rate of employment growth. It is certainly unlikely that employment will return to pre-recession levels before 2016.

Public spending

The size of the fiscal deficit – which is on track to equal the 2009 Pre-Budget Report's forecast of £178bn for the fiscal year 2009/10 – is likely to result in reductions to public spending over the coming years. If this includes reductions in benefit expenditure targeted at those on low incomes and spending on fuel poverty programmes, it is inevitable that this will contribute to rising levels of fuel poverty.

Summary

- The number of people living in fuel poverty has been rising since 2005. This trend looks set to continue as three drivers are currently moving in the wrong direction: domestic energy prices are likely to increase over the coming decade as a result of a combination of rising wholesale energy prices, climate change policy costs and the need to upgrade the energy infrastructure.
- People who have lost their jobs as a result of the recession face a fall in income and resultant difficulties in paying their energy bills.
- Cuts in public spending and/or moves towards greater levels of means testing could also mean that more people's incomes decrease, and hence greater levels of fuel poverty could ensue.

2. Including the Carbon Emissions Reduction Target (CERT), the Community Energy Saving Scheme (CESP), the Supplier Obligation, Better Billing, Smart Metering, Renewable Heat Incentive and products policy.

3. Current initiatives to tackle fuel poverty

There is a great deal of uncertainty about what really constitutes expenditure on tackling fuel poverty. Some policy measures *contribute* to addressing fuel poverty but also help to achieve other goals, such as increasing income levels for pensioners and reducing carbon emissions. The reverse is also true: programmes designed to tackle climate change or to raise incomes can have knock-on benefits for people in fuel poverty. The mix of devolved and reserved powers across the UK also causes difficulties in assessing what is being done, since some measures apply across the UK but others only to England, Scotland, Wales or Northern Ireland.

Regardless of the difficulty in quantifying precise levels of investment in fuel poverty programmes there is no doubt that expenditure has been, and continues to be, substantial. Yet the current strategy is clearly inadequate to meet existing statutory targets for the eradication of fuel poverty.

In this section we outline the current fuel poverty policy landscape in the UK in the context of the scale of the challenge and the complex funding and regulatory arrangements in place. We turn first to publicly-funded programmes and then examine programmes funded by energy suppliers (which are ultimately paid for by energy consumers).

Government-funded programmes

Central and devolved governments in the UK fund and manage a number of schemes designed to alleviate fuel poverty. In addition, most welfare benefits provided by government also play a role in tackling fuel poverty, particularly those designed to supplement the incomes of low-income households. (Payments that are not specifically linked to fuel poverty fall outside the scope of this report.)

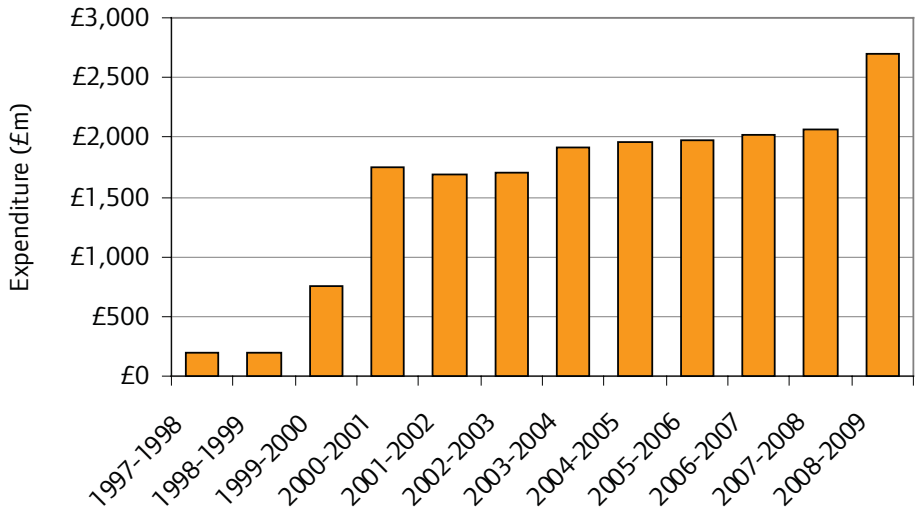
Winter Fuel Payment

The Winter Fuel Payment is paid to virtually all households in the UK that contain someone aged 60 or over, regardless of their financial circumstances. For winter 2009/10 the payment will be made at two rates: for households containing someone aged between 60 and 79, the payment is £250; for a household with a family member aged 80 or over the payment is £400. In total, the payment is received by more than 12m individuals at an overall cost to the Exchequer of £2.7bn. Figure 3.1 shows the increase in government expenditure on the Winter Fuel Payment over the last decade.

The Winter Fuel Payment is only guaranteed for the lifetime of the current Parliament but the Conservative Party has already indicated its intention to retain the payment should it form the next government.

Figure 3.1: Winter Fuel Payment expenditure, 1997/8–2008/9

Source: DWP 2009a



The universal nature of the Winter Fuel Payment is simultaneously a weakness and a strength. The title of the benefit reflects Government recognition that older people often require additional support in keeping their homes warm during the colder months of the year. Households that do not require financial support with their energy costs receive the payment anyway. Limiting the payment to households with low incomes, who are much more likely to be experiencing fuel poverty, would free up resources to increase the level of support given to low-income pensioner households and/or extend the payments to other vulnerable non-pensioner households.

However, the universal nature of the payment pre-empts some of the difficulties associated with means-tested benefits. Some people do not claim because of fear of the associated stigma or because of a lack of knowledge. And some low-income households might fall marginally over the qualifying income threshold yet still be in fuel poverty.

It is difficult to argue that the Winter Fuel Payment should genuinely be called a fuel poverty measure because it is a universal benefit, it bears no relation to domestic energy prices and there is no way of knowing if the payments are actually spent on energy costs.

Cold Weather Payment

In contrast to the universal Winter Fuel Payment, the Cold Weather Payment is made only to vulnerable households on low incomes[3] and only when the weather is especially severe. Payments are made when average daily temperatures have reached, or are forecast to reach, no higher than 0°C over a seven-day period.

Annual expenditure on the Cold Weather Payment has normally been in the region of £8–12m in recent years. However, for winter 2008/9 and 2009/10, the payment was increased from £8.50 to £25 a week. This increase, and the fact that it was a comparatively cold winter, resulted in expenditure of some £209m in 2008/9 (Environment, Food and Rural Affairs Select Committee 2009). The Cold Weather Payment has been retained at the £25 level for the winter of 2009/10. Some 4.1m households in the UK are eligible for the payment, of which more than 2.7m are pensioner households (Commons Hansard 2009).

Energy efficiency programmes in the four nations

The UK government and the devolved administrations all fund their own domestic energy efficiency programmes designed to tackle fuel poverty and reduce domestic carbon emissions. Although the programmes differ between each other in design, they provide similar services, with most measures targeted at vulnerable or low-income households.

- Warm Front – England

  Warm Front provides free heating and insulation improvements to people who are aged over 60 and in receipt of a qualifying benefit, and to other vulnerable households including families with children and people with a disability. Expenditure on the Warm Front programme has fluctuated over the current three-year funding regime. The scheme's budget was £374m in 2009/10, but was due to fall to £200m in 2010/11. However, an additional £150m was announced in the 2009 Pre-Budget Report, and consequently overall spending on Warm Front from 2008/9 to 2010/11 will reach £1.12bn. It is not yet clear whether the programme will be extended beyond the end of 2011.
- Energy Assistance Package – Scotland

  The Scottish Government's Energy Assistance Package incorporates a range of measures dependent on the circumstances of the individual household. In 2009/10 the budget for the Energy Assistance Package is £51m. The package consists of four stages, with stages 3 and 4 only available to certain vulnerable or low-income households:

3. Eligibility for Cold Weather Payments is restricted to households on the lowest levels of welfare benefits and where there is an additional factor of vulnerability through age (over 60 or under 5) or disability.

1. Energy advice
2. Benefit entitlement checks
3. Package of standard insulation measures
4. Enhanced energy efficiency package

- Home Energy Efficiency Scheme – Wales

  The Welsh Assembly Government supports the Home Energy Efficiency Scheme (HEES), which provides a package of heating and insulation improvements up to the value of £3,600. Grants are available for low-income and vulnerable households. The HEES budget for 2009/10 is £25m and the same level of funding has been allocated for 2010/11. The Welsh Assembly government is likely to adopt an Energy Assistance Package on a similar basis to that of Scotland.

- Warm Homes Scheme – Northern Ireland

  The Northern Ireland Assembly funds the Warm Homes Scheme, which provides insulation, and Warm Homes Plus for households without central heating, and both are targeted at low-income households. The 2009/10 budget for heating and insulation improvements through this programme is £20m.

Tackling fuel poverty in social housing: Decent Homes Standards

The UK Fuel Poverty Strategy indicated that the Thermal Comfort element of the Decent Homes Standard would be the main mechanism for addressing fuel poverty in social housing in England (DTI and DoE 2001). The target adopted by Government was to achieve compliance with the standard for all social housing by 2010. It is now estimated that 95 per cent of social housing will comply.

From the outset, the Thermal Comfort criteria were criticised as being minimal and inadequate. The Government effectively conceded this argument when it accepted that the standard would not provide affordable warmth for all social housing tenants and agreed that additional measures – such as social tariffs – would be required (Department of Transport, Local Government and Regions [DTLR] 2001). Since 2002 the Government has adopted additional targets to reduce the proportion of non-decent homes occupied by vulnerable households in the private sector. While some programmes, including Warm Front, do incidentally address the issue of Thermal Comfort in the private sector, there is no specific programme or funding stream dedicated to this objective.

The conclusion this year of what might be described as phase 1 of the Decent Homes programme will provide an opportunity to build on the considerable success of this programme in the form of phase 2 with rigorous SAP[4]-based energy efficiency targets for heating and insulation being set across all tenure groups covered by the standard. Given the environmental and social imperatives to improve energy efficiency, it would be remarkable if a future 'Decent Homes Plus' programme were not much more rigorous and demanding in terms of energy efficiency specifications.

Expenditure on the Thermal Comfort element of the Decent Homes Standard is not always easy to quantify. The Department for Communities and Local Government (CLG) claims it spent £4bn on heating and insulation improvements in social housing between 2000/1 and 2007/8. CLG also claims that an additional £2bn will be spent on these measures between 2008/9 and 2010/11 (HM Government 2008). This expenditure is directed to the social rented stock only and primarily results from social landlords implementing standards well in excess of those mandated by the Decent Homes Standard.

The Scottish Housing Quality Standard (SHQS) and the Welsh Housing Quality Standard (WHQS) set minimum standards for social housing in Scotland and Wales. The SHQS includes

4. Standard Assessment Procedure – see Chapter 4

a requirement for homes to have effective insulation and a full, efficient central heating system. Under the Welsh standard, minimum standards are set for energy consumption for space and water heating. Northern Ireland has adopted the Decent Homes Standard along similar lines to the English standard.

The Housing Health and Safety Rating System (England only)

The Housing Act 2004 introduced the new Housing Health and Safety Rating System (HHSRS), which is used to assess the extent to which a dwelling poses a risk to its occupants. The English House Condition Survey reveals that by far the most common threat to the health and welfare of householders emanates from cold conditions within the home (CLG 2009).

Under the HHSRS, potential hazards are graded according to severity and likelihood, with 'Category 1 Hazards' being the most serious and likely. Table 3.1 shows the proportion of dwellings of different tenure in England which are considered to pose a Category 1 Hazard due to excessive cold.

Table 3.1: Dwellings posing Category 1 Hazard due to excessive cold under the HHSRS, 2007

Tenure	No. of households posing hazard	% of households posing hazard
Owner occupied	1,649,360	10.6
Private rented	416,176	15.2
Local authority	85,441	4.3
Registered social landlord	70,448	3.7
All dwellings	2,222,704	10.0

Source: CLG 2009

Identification of a Category 1 Hazard under the HHSRS is intended to trigger remedial action, which is monitored and enforced by the local authority. Since local authorities cannot enforce action against themselves, and because such action would be difficult in the case of owner-occupiers, the most likely targets for enforcement are private sector landlords. However, while Table 3.1 indicates that this tenure category has the highest proportion of excessive cold hazard, there has been virtually no intervention on the part of local authorities to take action to require heating and insulation standards to be improved. This is clearly an area where lack of both financial and staffing resources is frustrating remedial action in some of the worst properties in the housing market.

Other smaller fuel poverty programmes

The Government's major fuel poverty programmes are complemented by a number of smaller schemes, including:

- Fuel poverty stream of the Low Carbon Buildings Programme: £3m of funding to pilot microgeneration technologies and energy efficiency measures in deprived areas.
- Community Energy Efficiency Fund: a fund worth £6m which is testing options for improving the delivery of CERT (see below) and Warm Front using area-based approaches.

Support for energy costs funded by energy suppliers

In addition to programmes funded directly by the Exchequer, the Government has also reached agreement with energy suppliers that require them to contribute towards the costs of improving energy efficiency and reducing bills for vulnerable customers. New measures are on the horizon that will mandate this kind of activity. The costs of measures implemented by energy suppliers are ultimately passed on to energy consumers on their bills. Below we briefly outline the main programmes funded in this way.

Energy suppliers' voluntary social spend

In the Budget Statement of 2008, the Chancellor of the Exchequer announced an agreement with the major energy suppliers on the amount that they were voluntarily prepared to spend on specific programmes to help reduce the energy costs of disadvantaged energy consumers in Great Britain. The negotiated agreement would see suppliers spend £100m during 2008/9, £125m during 2009/10 and £150m during 2010/11.

In the first year of the agreement, energy companies exceeded the promised £100m contribution by a significant margin, spending a total of £157m on social programmes. Of total expenditure in 2008/9, the overwhelming majority (£130m) was spent on social tariffs or proxies[5] for social tariffs (Ofgem 2009). The remaining expenditure was allocated to activities such as Trust Fund grants and partnership working with the voluntary sector.

Table 3.2: Social tariff savings and costs at March 2009

Supplier	No. of customer accounts	Cost to suppliers/savings to customers
British Gas	516,279	£77m
EDF Energy	145,012	£9m
E.ON	51,881	£16m
npower	113,836	£12m
ScottishPower	72,386	£2m*
SSE	102,940	£15m
Total	1,004,470	£130m

Source: Ofgem 2009
*This figure is for the first three months of the year only

The energy regulator Ofgem noted that all suppliers had met targets agreed with government (related to the size of their customer base) and that the number of households on social tariffs or equivalents had more than doubled between March 2008 and March 2009 from 460,000 accounts to over 1m (Ofgem 2009).

However, there are a number of recognised problems with social tariff provision, most notably the fact that the qualifying criteria vary between suppliers, as do the techniques for identifying eligible customers. What is more, the stricter definition of what can be labelled a 'social tariff' that was introduced by Ofgem in 2008 means that one supplier does not offer a social tariff at all (although it does provide a reduced rate tariff for vulnerable customers).

Proposed mandatory social price support

The UK Low Carbon Transition Plan, published in July 2009, contained a government undertaking to 'bring forward new legislation at the earliest opportunity with the aim of placing social price support on a statutory footing when the current voluntary agreement ends in March 2011' (HM Government 2009a). The Government also promised increased resources for this measure and greater guidance for suppliers on the types of households that should be eligible for future support. This measure was introduced in the Queen's Speech on 18 November 2009 as one of the provisions of a new Energy Bill.

The proposals set out in the 2009 Energy Bill are for a new mandatory social price support measure that would be introduced in April 2011 and apply to energy suppliers operating across Great Britain. The scheme would comprise three elements:

- **Legacy spend:** this means that energy suppliers would be expected to continue support for those people already receiving support under the pre-existing voluntary agreement.

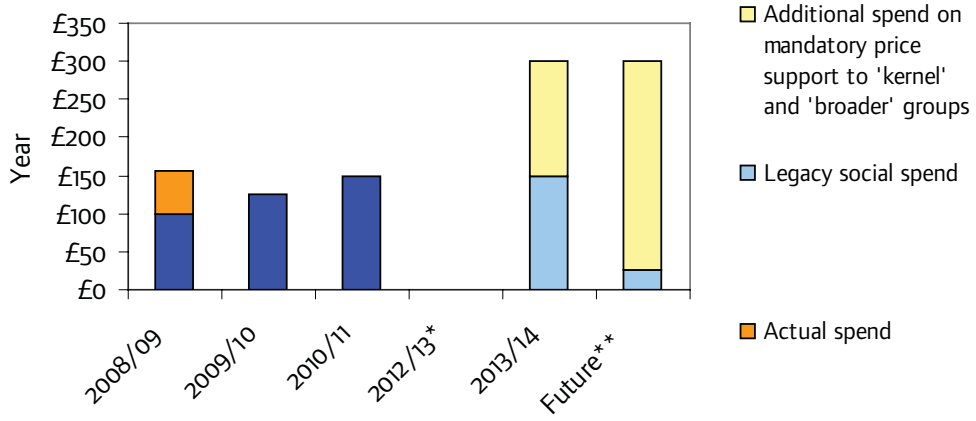
5. The regulator Ofgem now prescribes that, to qualify as a social tariff, charges must be no higher than those made to online direct debit customers in that particular region.

- **Kernel group support:** this would be additional expenditure to provide a discount on energy bills for a specified group of people. This is likely to be older pensioners on the lowest incomes, probably those in receipt of the Guarantee Credit element of Pension Credit.
- **Broader group support:** additional spend to provide a discount to a wider (as yet unspecified) group of people than those falling into the 'kernel' group.

The Chancellor's Pre-Budget Report, published in December 2009, indicated that supplier support for mandated social offerings would reach £300m a year by 2013/14. The different levels and types of spending by energy suppliers on fuel poverty from 2008/9 are set out in Figure 3.2 below.

Figure 3.2: Voluntary social spend and proposed mandatory social price support spending

Source: Ofgem 2009 and Darling 2009



* Level of spending for 2012/13 has not yet been determined but is expected to be greater than 2010/11 levels.
** Indicative only - not to scale

The Energy Rebate Scheme

An interim Energy Rebate Scheme is being run ahead of the introduction of the mandatory social price support scheme. This scheme will pilot a new data-sharing project between the DWP and energy suppliers to help improve targeting of fuel poverty programmes, using powers granted by the Pensions Act 2008 to share data on Pension Credit customers for the purpose of reducing their risk of fuel poverty.

The Energy Rebate Scheme will provide energy suppliers with access to data on their customers who are aged 70 or over and in receipt of the Guarantee Credit element of Pension Credit. It is proposed that eligible households will receive a discount of £80 on their electricity bills. This measure will benefit some 250,000 households and will cost suppliers around £20m. The proposed discount arrangement will exclude households who would otherwise be eligible but who are currently benefiting from a voluntary social tariff from their energy supplier.

As we have already noted, expenditure on social tariffs by energy companies in 2008/9 exceeded the amount they had agreed to spend annually by 2010/11. If the Energy Rebate Scheme is to be fully implemented, then additional funding will have to be found for an expanded programme or energy suppliers may reallocate some of the funding from existing programmes towards the Energy Rebate Scheme.

Carbon Emissions Reduction Target (CERT)

The main programme to deliver domestic energy efficiency measures across England, Scotland and Wales is the Carbon Emissions Reduction Target (CERT). The CERT programme imposes

an obligation on the major energy suppliers to achieve carbon dioxide reductions through energy efficiency interventions in the domestic sector. Within the overall carbon reduction target there is a further requirement that 40 per cent of the savings should be achieved through work on dwellings occupied by a 'Priority Group' – households in receipt of means-tested or disability related benefits or where the householder or partner is aged 70 or over.

Over the period 2008–11, energy suppliers are to achieve lifetime carbon savings of 185m tonnes at an estimated cost of £3.2bn. This figure includes a 20 per cent increase in the CERT programme announced in September 2008. Since measures provided on behalf of the Priority Group are generally 100 per cent grant-funded, the share of spend devoted to these households is in the region of 56 per cent of total spend, or £1.8bn over the three years of the programme.

The Government proposes to introduce extension of CERT to align with the end of the first carbon budget period. The extension is estimated to cost some £2.4 billion in total, of which £1.3 billion will be expended on behalf of the Priority Group. It is also proposed to create a 'super' Priority Group to ensure that the most vulnerable households benefit from this programme.

Community Energy Savings Programme (CESP)

The Community Energy Saving Programme (CESP) is a new initiative to test the merits of an area-based, whole-house approach to energy efficiency. While ostensibly a carbon-focused programme, CESP has an implicit remit to address fuel poverty. The Government's guidance is for the CESP to:

- Identify 100 of the most economically disadvantaged communities in Great Britain
- Implement comprehensive energy efficiency programmes in these communities to benefit 90,000 households
- Develop a partnership involving the local authority and community-based agencies to deliver the programmes.

Funding for the CESP initiative is provided through a new obligation on energy suppliers and, for the first time, electricity generators, and creates a resource worth in the region of £350m. The CESP scheme is to operate from autumn 2009 over a three-year period.

Incentives to gas network companies to extend grid connections

Ofgem estimates that 4.3m households are not connected to the gas network, and it is known that the risk of fuel poverty is particularly high in off-grid communities (Ofgem 2008). Ofgem has put in place incentives for the large gas networks to provide grid connections to low-income and vulnerable households across Great Britain. It is anticipated that some 20,000 households may benefit from this proposal and, subsequently, from grant-aided installation of gas-fired central heating (Ofgem 2010).

Other fuel poverty activity

Although the UK government and devolved administrations together with the energy suppliers are responsible for the bulk of activity on fuel poverty in the UK, other organisations also play an important role, namely:

- **Local authorities:** in England, tackling fuel poverty forms one of the national performance indicators that local authorities can choose in their agreements with central government. Only around a quarter of local authorities have adopted the indicator on fuel poverty. Action by local authorities tends to take the form of promoting the take-up of benefits and helping residents to access programmes provided by government and energy suppliers.
- **Third sector:** charities for older people, together with National Energy Action, have led the voluntary sector's action on fuel poverty, which has included campaigns,

raising awareness of fuel poverty programmes and delivering advice and benefit checks. Their focus has tended to be on ensuring sufficient public funds are available to effectively tackle fuel poverty.

- **Other stakeholders:** publicly-funded independent organisations including the Energy Efficiency Partnership for Homes, the Energy Saving Trust and Consumer Focus have been active in lobbying for extra resources to tackle fuel poverty and providing advice on energy efficiency to consumers and others.

Summary

The tables below provide a summary of future and planned expenditure by government and energy suppliers on current programmes that contribute towards reducing fuel poverty.

Programmes funded by government

Programme	Expenditure 2007/8	2008/9	Planned expenditure (already announced) 2009/10	2010/11	2011/12	2012/13
Winter Fuel Payment	£2.1bn	£2.7bn	-	-	-	-
Cold Weather Payment	£4m	£209m	-	-	-	-
Warm Front (England)	-	£400m	£374m	£350m	-	-
Energy Assistance Package (Scotland)	-	-	£51m	-	-	-
Warm Homes Scheme (Wales)	-	-	£25m	£25m	-	-
Warms Homes Scheme (Northern Ireland)	-	-	£20m	-	-	-
Decent Homes Standard	£2bn (2008–11)	-	-	-	-	-

Programmes funded by energy suppliers

Programme	Expenditure 2007/8	2008/9	2009/10	2010/11	2011/12	2012/13
Voluntary social spend (including Energy Rebate Scheme)	-	£157m	£125m	£150m (incl. £20-25m for Energy Rebate Scheme)	-	-
Mandatory social price support*	-	-	-	-	Not yet decided	£300m
Carbon Emissions Reduction Target (CERT)	-	£1.8bn on Priority Group (£3.2bn in total) (2008–2011)			-	-
Community Energy Savings Programme (CESP)	-	-	£350m (2009–2012)			-

**As proposed in the Energy Bill*

4. The cost of eradicating fuel poverty

The moving target that is fuel poverty makes quantifying the level of resources needed to eradicate it extremely difficult. As the general economic climate improves or deteriorates, households move in or out of fuel poverty – a phenomenon described as 'churn'. Volatile energy prices also make it hard to predict the extent to which fuel poverty will be a problem in the future.

In the hierarchy of programmes to address fuel poverty, heating and insulation improvements are generally considered to be the most rational and sustainable means of achieving a permanent solution. This is because energy efficiency programmes have a one-off cost that delivers sustained reductions in energy requirements, or, more likely in the case of fuel-poor households, a higher level of warmth and comfort, whereas measures to increase household income or to provide discounts on energy bills require sustained funding. This is not to suggest that supplementary measures will not be required, but that energy efficiency will invariably be the most rational first phase in any fuel poverty strategy.

Consequently, the most compelling and authoritative research has attempted to quantify the cost of ensuring affordable warmth for all households. A number of research projects have sought to assess the level of funding needed to end fuel poverty through energy efficiency interventions. Typically these analyses have focused on the model of heating and insulation programme required to effectively 'fuel poverty-proof' houses.

Limited work has been carried out on alternative approaches to addressing fuel poverty, that is, increasing household incomes and/or taking action to reduce energy costs. These approaches would typically consider what additional financial resources were required to deliver affordable warmth and/or the level of reduction required in energy bills to achieve this same objective.

The rest of this section summarises a number of studies that have been conducted by fuel poverty campaigning bodies and researchers, which examine what resources are needed to meet the statutory targets through energy efficiency programmes.

Improving energy efficiency to achieve fuel poverty targets

Analysis carried out by the Centre for Sustainable Energy and the Association for the Conservation of Energy in 2008 found that a one-off investment of £4.6bn in energy saving measures targeted at fuel-poor households could eradicate fuel poverty completely in 71 per cent of households in England (Preston *et al* 2008). Significant benefits would also be delivered to the remaining 29 per cent of households, but they would also require additional financial support which was estimated at just over £1bn a year to take these households out of fuel poverty as well.

However, the authors acknowledge the difficulty in identifying fuel-poor households and suggest that a doubling of the energy efficiency investment cost – to £9.2bn – would be necessary to account for problems in targeting the programme at the right households.

The analysis was also based on the estimated incidence of fuel poverty in 2006, when the problem affected 2.5 million households. The Government's current projections of 4.6 million fuel-poor households in England is almost twice the number discussed in this research, which suggests that the figures presented in the report are likely to underestimate the cost significantly.

Finally, the programme described in the research only considers the level of expenditure required to ensure that households would have to spend less than 10 per cent of their income to keep their home at a reasonable temperature. However, it is clear that the achievements would be immediately undermined by any significant upward movement in energy prices.

Improving SAP ratings

Consumer Focus recently investigated the cost of a programme designed to improve the Standard Assessment Procedure (SAP) rating of properties occupied by fuel-poor households in England to SAP 81 (Band A or B)[6] (Consumer Focus 2009). The research indicated that compliance with this standard (or a lower standard of B and C – indicating a SAP rating of between 69 and 80 – where this was not feasible) would eliminate fuel poverty in 83 per cent of fuel-poor households and bring the average energy efficiency rating in their homes up to SAP 71.

The vision set out in the study (which includes renewable energy technologies as well as energy efficiency measures) would require a seven-year programme that would cost in the region of £3bn per year – £21bn in total. This represents average expenditure per household of £8,820 if the programme is restricted to fuel-poor households. The study also acknowledges that a programme such as this would not eliminate fuel poverty in all households and so there would still be a need for higher benefit levels and social tariffs to eliminate this residual fuel poverty problem.

As with the Centre for Sustainable Energy/Association for the Conservation of Energy report, this study is based on a smaller number of fuel-poor households (2.4 million in England) than the Government's projections currently estimate. The authors also fail to address the issue of targeting and the clear need to improve many more dwellings than there are fuel-poor households in order to ensure comprehensive access. This suggests that the £21bn figure is probably also an underestimate.

In her evidence to the 2009 Environment, Food and Rural Affairs Select Committee inquiry into energy efficiency and fuel poverty, Dr Brenda Boardman of the Environmental Change Institute suggested that achieving a rating of SAP 81 for 5 million fuel-poor households by 2016 would cost £5bn a year. The Energy Saving Trust has estimated an even higher cost of £8bn per year between 2009 and 2016 (Environment, Food and Rural Affairs Select Committee 2009).

In its recent inquiry into energy efficiency and fuel poverty, the Environment, Food and Rural Affairs Select Committee concluded that a programme costing £4bn a year over seven years would be adequate to raise SAP ratings for properties occupied by fuel-poor households to SAP 81 (ibid).

Improving the social housing stock

In a recent article, Dr David Jenkins of Heriot-Watt University focused on the role of the social housing sector, across the UK, in achieving both fuel poverty and carbon reduction objectives (Jenkins 2009). He focuses on social housing because of the opportunities for economies of scale and the project management experience of social housing landlords.

However, the plans outlined in the article fail to take account of differences in social housing stock, which leads to highly generalised conclusions about the cost of the proposed programme. Costs are modelled on the assumption that properties on a given estate are all of one type. Cost estimates range from the expenditure required to achieve CO_2 savings of 60 per cent across a range of small flats, to the expenditure required to save similar levels of CO_2 where the housing stock is represented by a pre-1919 detached house. The cost per dwelling ranges from £7,000 in the first example to £31,900 in the second. The amount of overall expenditure on the whole programme ranges from £3.9bn to £17.5bn. This level of expenditure would eliminate fuel poverty for only 550,000 households – perhaps one in seven of all fuel-poor households in England.

6. SAP ratings give an indication of the energy efficiency of properties. SAP 81 is equivalent to an Energy Performance Certificate Band B and would represent a more ambitious programme of work than that proposed in the study by Preston *et al* (2008).

The Government view

As part of its evidence submission to the recent Judicial Review brought by Friends of the Earth and Help the Aged, the Government indicated that additional expenditure in the region of £11.5bn, over and above existing fuel poverty funding, would be required to comply with the 2010 target to eradicate fuel poverty for all vulnerable households in England[7].

Government Ministers have also suggested that programmes to improve the energy efficiency of all housing stock in England to a SAP 81 rating would cost £50bn (Environment, Food and Rural Affairs Select Committee 2009).

Summary and conclusion

Accurate and consistent estimates of the cost of eliminating fuel poverty are difficult to establish. The research cited here implies that overall expenditure might range between £9.2bn (supplemented by support for energy costs) and £64bn. Table 4.1 summarises the cost estimates.

Table 4.1: Summary of energy efficiency programme cost estimates

Organisation	Programme	Coverage	Timescale	Cost	Caveats
Centre for Sustainable Energy/ Association for the Conservation of Energy	Energy efficiency measures to ensure required household energy spend of 10% or less of household income	Fuel-poor in England only	Unclear	£9.2bn one-off investment plus £1bn per year on benefits/defrayed energy costs	Based on figure of 2.5m households. Would be undermined by increased energy costs
Consumer Focus	Achieve SAP 81 for fuel-poor properties	Fuel-poor in England only	7 years	£3bn per year (£21bn total) £8,820 per property	Neglects additional costs to overcome targeting problems. Based on 2.4m households
Environmental Change Institute (Brenda Boardman)	Achieve SAP 81 for fuel-poor properties	Fuel-poor only, UK-wide	Unclear	£5bn per year	
Energy Saving Trust	Achieve SAP 81 for fuel-poor properties	Fuel-poor only, UK-wide	2009–2016	£8bn per year (£64bn total)	
Efra Select Committee	Achieve SAP 81 for fuel-poor properties	Fuel-poor in England only	7 years	£4bn per year (£28bn total)	
Dr David Jenkins (Heriot-Watt University)	Unclear	Social housing only, UK-wide	Unclear	£3.9–£17.5bn £7,000–£31,900 per property	

Sources: Preston *et al* (2008); Consumer Focus (2009); Environment, Food and Rural Affairs Select Committee (2009); Jenkins (2009)

The wide range of cost estimates illustrates some of the difficulties resulting from the changing numbers and nature of fuel-poor households and problems associated with identifying and assisting people who are fuel-poor.

At best, spending on fuel poverty programmes through the CERT Priority Group, Warm Front, CESP and work undertaken to deliver the Thermal Comfort element of the Decent Homes Standard in England will total some £1.6bn in 2010/11 (although this probably

7. See judgement from the official review, 23 October 2008, at www.eci.ox.ac.uk/research/energy/downloads/fpws-judgment.pdf

represents an overestimate since some CERT and CESP resources will be allocated to Scotland and Wales). This clearly represents a significant shortfall compared with even the most optimistic cost estimates presented here.

The large fiscal deficit and political consensus on the need to reduce public spending means that the indicators are not good for increased expenditure on a social welfare agenda. On the other hand, there remains the driver of the Warm Homes and Energy Conservation Act and repeated government commitments to the goal of ensuring that every home is adequately and affordably heated. Perhaps the strongest motive that will continue to promote fuel poverty reduction policies is the fact that improved standards of domestic energy efficiency are also central to the climate change agenda. The Climate Change Act 2008 seeks to legislate for reduced carbon in the same way that the Warm Homes and Energy Conservation Act 2000 legislates for affordable warmth.

5. Rethinking fuel poverty

It is clear that the current fuel poverty strategy is unlikely to deliver on the fuel poverty targets for 2010 and 2016/18. The current strategy was devised at a time when energy prices were falling and before climate change had become such an important feature of the policy landscape. Now that the context has changed – with energy prices on the rise and new low-carbon technologies on the horizon – it is no longer capable of achieving the Government's goals on fuel poverty. A radical rethink of the UK's fuel poverty strategy is required and it is our recommendation that government commissions an independent review.

DECC is partway through a review of the fuel poverty strategy, but this is relatively limited in scope and is likely to result in incremental changes to the current approach rather than a fundamental revision of the strategy. A full review would need to reconsider the assumptions that underpin the current strategy and should look at some of the aspects that are taken for granted – including the way that fuel poverty is defined, the use of targets to drive forward progress and the focus on government and energy supply companies as the major delivery agents.

We set out below some of the key aspects that should be included in any policy review. Of course, it will take time for a new strategy to be developed and implemented, so in Section 6 we set out some more specific policy recommendations for the interim period.

Which measures?

It is widely recognised that energy efficiency measures are the most cost-effective and sustainable way to tackle fuel poverty and that ideally, price support and/or income support measures should only be used where energy efficiency options have been exhausted but fuel poverty persists.

Some interviewees noted that the current, target-driven approach to fuel poverty tends to drive policy responses in the opposite direction by focusing attention on short-term solutions such as financial measures rather than long-term investment in energy efficiency. This is also reflected in the failure of current energy efficiency programmes to address hard-to-treat and off-grid properties.

A review of the fuel poverty strategy should address the question of how energy efficiency measures can be prioritised to ensure a more sustainable approach. A full cost-benefit analysis setting out how long the 'pay-back' period would be for different types of investment in energy efficiency measures should be carried out to inform this decision.

Fuel poverty definition

Although some people that we interviewed for this report felt that the current definition of fuel poverty was adequate, others highlighted a number of problems with it.

First, the question of whether 10 per cent was still an appropriate cut-off point was raised. Clearly, if energy prices continue to rise at a faster rate than income levels, more and more people will cross this 10 per cent threshold and be classed as 'fuel poor'. If energy prices are to continue rising (as expected) then perhaps consideration should be given to increasing this limit, for example, by making it proportional to the average spend.

An alternative approach would be to retain the 10 per cent threshold, but introduce different subgroups within the fuel-poor group to help distinguish the most vulnerable. For example, this could mean identifying people who are on the lowest incomes, people who live in 'hard-to-treat' properties or people who are the most susceptible to health problems as a result of living in cold properties. It could also mean looking at the value of a property and not prioritising households who are 'asset rich', as long as they are not considered to be vulnerable for other reasons. These households could be given advice about using the value of their property to reduce their risk of fuel poverty, for example through equity release schemes.

Secondly, the current formulation of the definition as expenditure on energy as a proportion of income was called into question. At the moment, this construction produces the confusing outcome that (statistically speaking) investment in social tariffs to lower energy costs is 10 times more effective at removing people from fuel poverty than action to increase household income, even though to the individual concerned it makes no difference to their bank balance. The impact of this effect can be seen in the Government's observation that classing the Winter Fuel Payment as income removes 200,000 households in the UK from fuel poverty; whereas setting the value of the payment against energy bills would remove 1.1 million households from fuel poverty (DECC 2009).

This effect has been a key factor in promoting action to reduce fuel bills through the voluntary agreement with energy suppliers and then the mandatory social price support. As we will go on to argue below, there are a number of reasons why increasing the emphasis on reducing bills (and therefore making energy companies and ultimately energy consumers pay) is problematic.

However, it should be noted that the Government has indicated that it does not intend to revise the current definition of fuel poverty.

Use of targets

As already mentioned above, the fuel poverty targets for 2010 and 2016/18 have tended to promote short-term policy solutions over long-term, more sustainable approaches.

However, there is also a broader question about whether a target to eradicate fuel poverty completely (as it is currently defined) is a sensible goal. The number of people in fuel poverty will depend on events beyond the direct control of governments, especially when it comes to weather patterns and wholesale oil and gas prices. This means that fuel poverty measures would need to be indexed to these kinds of phenomena to ensure it was truly eliminated.

On the other hand, some interviewees did point out that target-setting was a useful way of driving forward a policy agenda. They suggested that even if the 2010 and 2016/18 targets are missed, greater progress on fuel poverty will be made than if no commitment had been given in the first place.

Who should pay?

At a time when stringent public spending cuts are looming on the horizon, the issue of who pays for tackling fuel poverty is a particularly pertinent one. In Section 3 we described the current split in the delivery of fuel poverty programmes between tax-funded government programmes and programmes delivered by energy suppliers and ultimately paid for by energy consumers. The current division of responsibility reflects a recent trend towards loading more of the costs on to energy consumers.

The interviews we carried out for this report revealed a strongly held conviction that in an ideal world, fuel poverty would be addressed solely through the tax and benefits system. This view was held by interviewees from a wide variety of backgrounds, including non-governmental organisations and campaigners as well as respondents from energy companies.

The main reason for this is that when measures are applied through energy companies, the costs are recovered in a regressive way from consumers. That is, generally speaking, the costs are shared equally between all customers, regardless of their level of income, meaning that lower income consumers pay a greater *proportion* of their income than higher income consumers[8]. This contrasts with the tax and benefit system, where income tax at least is 'progressive' (higher earners pay a larger share of their income in tax than lower earners do) and governments can use benefit payments to disproportionately increase the incomes of the poorest.

8. It is difficult to know exactly how costs are passed on owing to the plethora of different tariffs available from energy companies and differences between the deals obtained by customers who frequently switch tariffs and those who stick with the same deal for long periods of time.

It is clear that energy companies have neither the means to levy costs in a more progressive way nor the remit to do this. Using the taxation system instead would provide a more progressive way of collecting revenue, and would ensure that those on higher incomes contribute proportionately more towards the costs of tackling fuel poverty.

Interviewees also stressed that fuel poverty is a social policy challenge which should be addressed through government policy and expenditure, just like other social policy issues. This is particularly true if government sets itself clear targets, as it has for fuel poverty – it must then also make sure it has the tools to achieve its stated goals. The current approach does not appear to be making this a reality.

A review of the fuel poverty strategy should consider seriously the question of who pays for fuel poverty programmes. At the moment, the costs are split between taxpayers and energy consumers. However, it may be appropriate to consider other sources of funding, particularly in the case of programmes to improve housing quality. Schemes that increase energy efficiency and microgeneration capacity for households can sometimes be used to address both fuel poverty and climate change at the same time. In this case the fairest approach is for those who are able to pay to cover the costs of any improvements to their own dwellings because this ensures that costs and benefits accrue to the same household.

Since the upfront costs of installing these kinds of measures can be large, a number of ways of raising capital to provide loans to individuals are currently being explored by government, opposition parties and independent thinkers. Potential sources of funding include borrowing by local authorities, privately funded 'green' investment banks, 'green' government bonds and other sources of private investment, such as high-street retailers. The idea would be that individuals could repay loans from the savings on their energy bills generated by energy efficiency and microgeneration measures (see, for example, DECC 2009e, Liberal Democrats 2009 and Shapps 2009).

Fuel-poor households who cannot afford to heat their homes sufficiently at present would not be able to benefit from this kind of loan programme. For this group, the installation of energy efficiency or microgen measures would enable them to heat their homes to a more appropriate level while maintaining the same level of spending on energy bills, hence they would have warmer homes but would not see any financial savings. Households without any resources over and above what is basically subsistence level cannot be expected to incur substantial debt for this purpose. For this group of people, energy efficiency measures need to be provided free of charge. Again, preferably these should be funded by taxpayers for the reasons cited above.

One area where there might be scope for using new funding schemes is for district heating programmes. This way of heating domestic properties requires investment in infrastructure at a local level and would probably be paid for by local authorities. 'Green' bonds might be one way of raising capital for this kind of venture.

Who should deliver fuel poverty programmes?

At the moment, fuel poverty programmes are delivered principally by one of three agents: energy companies (as in the case of CERT and the voluntary commitment), government (as in the case of the Winter Fuel Payment) or contractors (such as eaga, which delivers the Warm Front programme).

There are a number of problems with using energy companies to deliver fuel poverty programmes. These include the fact that costs are passed on to customers in a regressive way (as described above), the difficulties companies face in identifying which customers are in fuel poverty, and a lack of trust towards energy companies with regard to pricing and tariffs, which poses a challenge in ensuring adequate take-up of price support measures. On the other hand, energy companies already have direct relationships with customers, which can make it easier for them to deliver measures directly.

A reassessment of the fuel poverty strategy should give consideration to other potential delivery agents and whether they might be better placed than energy suppliers to do the job or whether partnership working could be used to improve delivery.

The companies licensed to distribute electricity in Great Britain, the Distribution Network Operators (DNOs), have been proposed as more appropriate revenue gatherers than energy suppliers, with suggestions that using DNOs could also address some of the problems relating to the regressive nature of the current approach (Helm 2008). Although there are lots of practical reasons why this would not be appropriate in the short term (for example, because DNOs do not have a direct relationship with the customer), this idea warrants greater consideration in the context of a radical overhaul of the Government's fuel poverty strategy.

Local authorities have also been suggested as potential delivery agents and many are already engaged in work to address fuel poverty (Audit Commission 2009). Their knowledge about their local area could help to better identify households who are likely to be at risk of fuel poverty and many are already supporting area-based models such as Warm Zones. Programmes like CESP, and the pay-as-you-save trials launched by DECC in December 2009, could potentially improve our understanding of the role local authorities could play.

Finally, there may be scope to involve other commercial organisations such as supermarkets and other high-street retailers. The Conservative Party would introduce a loan scheme for energy efficiency measures that would be delivered by Tesco and Marks and Spencer, among others. However, as discussed earlier, this is not a model that can be replicated in the case of fuel-poor households.

The role of new technologies and data sources

Any review of the fuel poverty strategy needs to bear in mind any technological changes on the horizon that could have an impact on fuel poverty. Interviewees identified a number of areas that should be given consideration.

The roll-out of smart meters to all households should deliver a major change in the way people use and pay for energy over the coming decade. Smart meters will provide a significant opportunity to energy suppliers to innovate with the tariffs they offer customers. Smart meters will not only offer the ability to charge differently – for example, by time of day – but they will also provide an incredibly rich source of data on domestic energy use patterns, which has previously been unavailable to companies. It is impossible to say at this stage whether new tariffs will benefit or disadvantage fuel-poor households, but it is extremely important that consideration is given to the impacts new tariffs are likely to have on vulnerable groups.

Renewable heat technologies are also improving and becoming more widespread, whether on a micro-scale (such as heat pumps and wood-burning stoves) or at a district level (such as combined heat and power, biomass boilers and district heating networks). These may provide new alternatives for tackling fuel poverty, particularly for people who are not connected to the gas grid. A new fuel poverty strategy should give thought to how these technologies might be delivered to fuel-poor households.

Finally, new sources of information that could help improve the targeting of fuel poverty measures are being developed. This would be useful if government decided to continue with an individual household approach rather than using an area-based approach. For example, CLG now receives data on the housing quality from Energy Performance Certificates and as mentioned above, smart meters will provide a better picture of domestic energy use patterns. This information could help ensure that fuel poverty programmes are more effective in targeting the right people, so a new fuel poverty strategy should give consideration to how such data could best be utilised.

Summary

- The time is right for a radical rethink of the UK's fuel poverty strategy because of the changing context within which fuel poverty will have to be addressed over the coming decade.
- A thorough review would also present an opportunity to address the problems with the current approach. This includes the need to prioritise energy efficiency measures, the appropriateness (or otherwise) of the fuel poverty definition and the regressive effects of passing costs to energy companies.
- A review would also ensure that new opportunities for tackling fuel poverty were maximised, such as the possibility of using different and more effective delivery agents and utilising new sources of information.

6. Next steps: towards a new fuel poverty strategy

A new fuel poverty strategy cannot be designed and delivered overnight. Fuel poverty is a pressing and growing problem now, and one that will require continued efforts in the interim.

In this section we outline how the existing fuel poverty measures should be taken forward in the short term and how they could be modified in the medium term to move towards a more desirable approach based on the arguments set out in Section 5.

Government-funded programmes

Winter Fuel Payment and Cold Weather Payment

It is widely acknowledged that the Winter Fuel Payment (WFP) is not an effective way of tackling fuel poverty, as only 12 per cent of people who receive it are thought to be fuel-poor[9] (Environment, Food and Rural Affairs Select Committee 2009). However, the WFP is an effective way of increasing the incomes of pensioners using a non-means-tested mechanism, which will benefit those on low incomes who fail to take up their entitlement to Pension Credit. In fact, many of our interviewees argued that the WFP was really introduced as a way of increasing the Basic State Pension rather than being primarily motivated by tackling fuel poverty (however, it should be noted that the payment amount has increased dramatically since first introduced in response to rising domestic energy costs – see Figure 3.1). In addition, the WFP is popular, which is likely to make its removal very challenging politically.

The Environment, Food and Rural Affairs Select Committee (2009) has proposed that the WFP should be made taxable and that the entitlement should be stopped altogether for higher rate tax payers. While this is an attractive proposal in principle, there may be some practical barriers that would make this difficult and costly to implement, as suggested by the Government's response to the recommendation (DECC 2009c). It is difficult to make the WFP taxable because the Department for Work and Pensions would not be able to tax at source, and even if it could, the individual would need to establish their tax liability with Her Majesty's Revenue and Customs and would need to make the effort to claim back tax. Stopping the payment for higher-rate tax payers also raises difficult questions: would the WFP be paid and then claimed back at the end of the tax year if recipients found their income was over the threshold, or would the decision about whether to pay be based on the previous year's income? The latter option could be problematic for people about to retire, given that their income would be about to drop, probably substantially.

Given these practical barriers, it is difficult to suggest how the WFP system could be modified in the short term to address the problems with targeting.

In the longer run, the WFP needs to be reformed so that funding on tackling fuel poverty is better targeted at those in need. One possibility would be to replace it with a new form of benefit along the lines of Heating Additions, which were phased out in the 1980s. Heating Additions were paid to Supplementary Benefit (Income Support) claimants who met certain criteria relating to the vulnerability of members of the household and characteristics of the dwelling.

Warm Front, Energy Assistance Package, Home Energy Efficiency Scheme and Warm Homes Scheme

Warm Front is due to come to an end in 2011 and it is not yet clear whether the scheme will be extended beyond this date.

NEA has advocated the introduction of a National Energy Scheme, which would take an area-based approach to deliver energy efficiency improvements to all households. It would

9. However, this figure is likely to be an underestimate owing to recent increases in domestic energy prices.

apply consistent standards for energy efficiency across the housing stock and would be funded by merging the budgets of all existing energy efficiency schemes (including – among others – Warm Front, CERT and the Decent Homes Standard). The measures could be offered on an ability-to-pay basis, so that low-income or vulnerable households are given financial assistance. The key features of the proposal are that it is a single, integrated area-based scheme, allowing opportunities to engage with entire communities. (For more information about the scheme, see NEA 2008.)

However, the policy direction in this area looks to be heading in the direction of producing (at least) two schemes. If the recently announced trials of pay-as-you-save energy efficiency schemes prove successful, a programme could be rolled out nationally. This would encourage households that are able to pay to improve the energy rating of their homes. However, people in fuel poverty will not be able to benefit from these schemes and so there is a continued need for a programme that will deliver these measures free of charge for fuel-poor households.

Ideally, this would be a publicly-funded programme targeted at the fuel-poor. It may take the form of a continued and expanded Warm Front programme (and the relevant schemes in Scotland, Wales and Northern Ireland), or it could take an area-based approach. Learning from the CESP programme should be used to inform this decision. A new programme should also include measures for hard-to-treat properties, which are currently excluded from the Warm Front programme.

If, as a result of economic constraints, it is not feasible to utilise public funding in the medium term for this programme, it may be necessary to supplement public spending with some form of supplier obligation as an interim arrangement. Again, this could take an individualised approach (along similar lines to the current CERT programme, but with 100 per cent of measures going to priority group households) or it could be area-based, again depending on how successful the CESP proves to be. The Government's Heat and Energy Management (HEM) Strategy will set out the form a future Suppliers' Obligation might take.

If the data-sharing trials are successful, this could provide the most straightforward method of identifying appropriate recipients, particularly if information from CLG on housing conditions could be incorporated. However, further legislation will be required to extend data sharing to groups beyond Pension Credit recipients.

Housing Health and Safety Rating System (HHSRS)

The HHSRS provides a potential lever for driving improvements in the private rented sector in England – a sector that is currently neglected by most fuel poverty and energy efficiency programmes because it is notoriously hard to reach. Better enforcement of the standards could help drive improvements to properties, but this would have resource implications for local authorities and may require incentives for landlords.

In the longer term, the UK government and devolved administrations should consider introducing more stringent minimum energy efficiency standards for rental properties, and ensure that these standards are enforced, so that only those meeting adequate energy efficiency levels can be let. Adequate notice would have to be given so that landlords had the necessary time to make improvements to their properties. There may also be a need to make loan and/or grant schemes available to landlords to enable them to make the necessary improvements (see next section). These could be tapered over time to encourage early take-up.

Pay-as-you-save (PAYS)

The Government has recently launched a trial of a pay-as-you-save scheme, the idea being that homeowners can borrow money to pay for energy efficiency measures on their property and then pay back the loan through the savings on their energy bills. Five partners have been selected to run trials, including a social landlord, an energy supplier, a city council, a

district council and a retailer (DECC 2009e). The Conservative Party has pledged to introduce a similar scheme should it enter government, with a £6,500 loan available to every household, which would be financed by high street retailers. The Liberal Democrats have also proposed a scheme of 'green loans' for energy efficiency and microgeneration measures that would be paid back through utility bills.

There are a number of options for how such a loan scheme could be financed, so the Government's approach of running trials to explore the different options for how the loans might be financed, who might deliver the programmes and how the money can be paid back before plumping for a particular model, is a sensible one.

Experience to date suggests that providing a PAYS scheme will not be sufficient to elicit the necessary behaviour change from individuals, so alongside the introduction of such a scheme, government should also announce an intention to introduce minimum energy performance standards for all homes, to be introduced at a specified date in the future, perhaps 2020, with the aim of driving forward improvements in housing quality. Homes would have to meet a minimum standard before they could be bought or sold. Sufficient time should be given to allow home owners to make any necessary improvements to their properties before the standards came into force. However, safeguards would also need to be put in place to protect vulnerable groups, such as older people seeking to sell their properties in order to cover costs for social care.

As described above, there should be a parallel programme to provide measures free of charge to those in fuel poverty who are not able to benefit from PAYS.

Programmes funded by energy suppliers

Voluntary social spend and mandatory social price support

Although in an ideal world, fuel poverty measures would be funded through the taxation system, the likely restrictions on all public expenditure over the next few years mean that it will be necessary to continue some programmes through the energy companies in the short to medium term, even though this means costs will be passed on to customers in a regressive way. The introduction of social price support has a number of advantages over the existing system of social tariffs, most notably because it creates a unified system across all energy suppliers, providing more clarity and consistency for vulnerable consumers.

However, it remains a regressive tool and to try to minimise the impacts of this approach, Government should investigate ways to ensure that costs are passed on to customers in the least regressive way possible. One way to do this might be to design the balancing mechanism between energy companies (to ensure no company is made to bear a disproportionate share of costs of implementing the scheme) on the basis of units of energy sold rather than number of customers. This approach would encourage suppliers to pass on the costs on a per-unit basis rather than as a fixed cost per customer. Research by the Centre for Sustainable Energy has shown that in general, people on lower incomes tend to use less energy than those on higher incomes (Roberts *et al* 2007), so people on higher incomes would contribute more towards costs levied on a per-unit basis.

However, some people on the lowest incomes use as much energy as those in the highest income deciles, so these people would be disadvantaged as a result of a per-unit approach. Since this group of people is likely to coincide with the fuel-poor, further research is necessary to determine if levying costs in this way would make them better or worse off, once the bill reductions had been taken into consideration.

Most of the people we interviewed for this project agreed that Pension Credit recipients would make a suitable 'kernel group' for social price support, particularly if data-sharing trials prove successful. This is because there is a good correlation between this group of people and people in fuel poverty, it is a relatively stable group, whose circumstances remain relatively similar over time, and targeting this group should help to reduce excess winter deaths.

However, although data-matching may help improve targeting and take-up, the take-up rate of Pension Credit is only around 70 to 80 per cent, as measured by expenditure (DWP 2009b). Therefore, using it as a basis for providing the mandated price discounts means that 20 to 30 per cent of eligible pensioners will not receive the discount because they have not taken up the Credit. Government therefore needs to continue its efforts to improve uptake of Pension Credit to maximise the benefit of the scheme.

ippr's interviewees also raised a number of risks associated with mandatory social price support:

- Moving away from social tariffs towards a rebate system means there will no longer be a guarantee that recipients are on the lowest available tariff.
- The level of the rebate is not linked to energy prices, so there is a risk that prices could rise by more than the level of the rebate, in which case recipients will be tipped back into fuel poverty.
- There is a question about what the level of the rebate should be. If it is set too high, then the additional costs (which are ultimately borne by all energy consumers) could end up pushing customers on the margin (but who are not eligible for rebates) into fuel poverty.

There should be scope to increase the level of the rebate in future as a precaution against large energy price rises. However, government should commit to match any future increased spending requirements imposed on energy suppliers with an equal increase in publicly-funded fuel poverty programmes to ensure the balance between government- and energy company-led programmes does not tilt any further towards the energy companies.

Finally, there was a concern among some interviewees that customers who were eligible for social price support but who already benefited from a social tariff would be excluded from receiving the rebate. Although energy companies argue that providing either social tariffs or a rebate (but not both) allows them to spread the £300m of support (the level of spending for 2013/14 set out in the Energy Bill) among a larger number of people, using data provided by DWP to exclude some people from receiving the rebate goes against the spirit of data sharing as allowed under the Pensions Act 2008. We therefore suggest that the rebate created by mandatory social price support should be offered in addition to the measures already offered under the voluntary agreements.

It is envisaged that, over time, spending on social tariffs will decrease and be replaced by increased spending on rebates through an expanded 'kernel' group (see Figure 3.2). So while the total level of spending from energy companies is expected to remain the same, a greater proportion of it will be spent on rebates rather than on social tariffs. We broadly support this move because it will help to provide clarity and certainty for vulnerable consumers.

This expected change in the nature of energy company spending on fuel poverty raises the question of which people ought to be included in an expanded kernel group in the future. There were many suggestions from interviewees for which groups the scheme could be extended to next, including Working Tax Credit recipients, people with disabilities, the long-term sick and low-income families with young children. However, we recommend that if the kernel group is to be expanded, the next group ought to be Cold Weather Payment recipients. This is because this group includes the people who are most vulnerable to fuel poverty, such as pensioners, people on low incomes with young children and people with disabilities or a long-term illness.

We recognise that a potential problem with using this group is that it could increase the overall level of spending from energy companies – for example, there are currently 4.1 million people who are eligible for the Cold Weather Payment, so if each of these received an £80 rebate, the total cost would be £328m. Although this situation would not be ideal, there

is a strong case to be made in terms of read-across between Cold Weather Payment recipients and those at risk of fuel poverty. If this approach were taken and did result in additional spending, then government should pledge to increase its own spending on other fuel poverty programmes (as argued above).

If the data-sharing trial proves successful, a similar approach could be used to deliver automatic discounts for this group of people, since the DWP already holds data on them. However, sharing this information with energy companies will require further legislation, so steps should be taken now if this option is to be available in the future.

As discussed above, obligations on energy companies to provide price support measures should not form part of a long-term strategy on fuel poverty because they are regressive and it is inappropriate for competitive companies to deliver social measures. The mandatory social price support scheme should therefore be an interim measure and should not be extended indefinitely. It should ultimately be phased out and replaced with publicly-funded income support programmes, where necessary.

CERT and CESP

Ideally a single National Energy Scheme (as advocated by NEA) would be introduced to improve energy efficiency. However, we recognise that the current policy direction is towards pay-as-you-save schemes.

If evaluations show there is scope for a national pay-as-you-save scheme, then this approach should be used to deliver energy efficiency improvements for those who are able to pay and a publicly-funded successor to Warm Front (and equivalent programmes in the devolved administrations) would be extended to provide measures to those not able to take part in PAYS schemes.

However, given that public finances are likely to come under extreme pressure in the next few years, it may be necessary to continue some form of scheme paid for by energy companies. The exact nature of this scheme should only be determined once the initial rounds of CESP have been completed and evaluated. However, whether the scheme is more individually-focused (like CERT) or area-focused (like CESP), it should target fuel-poor rather than able-to-pay households.

7. Conclusion

This report has set out the current approach to tackling fuel poverty in the UK, highlighted some of the problems with that approach and suggested ways in which it could be improved. Our recommendations have implications for actions that should be taken in the short, medium and long term.

Short-term measures

A systematic and independent review of the UK fuel poverty strategy should be carried out as soon as possible. This should go beyond the scope of DECC's current review of fuel poverty because rising energy prices and the imperative of tackling climate change mean that a radical new approach will be necessary. The review should consider how problems with the current strategy (including the definition of fuel poverty, how costs are divided between tax payers and energy customers and the need to prioritise energy efficiency measures) could be overcome and how new opportunities (such as new potential delivery agents, new technologies and new sources of data) could be maximised. It should result in a new strategy for tackling the problem in the medium to long term.

Changes to existing fuel poverty measures that should be made in the short term include:

- Investigate ways to ensure that the costs of mandatory price support schemes are passed on in the least regressive way possible
- Increase efforts to improve the uptake of Pension Credit to maximise the benefits from the Energy Rebate Scheme and mandatory price support scheme.

Medium-term measures

In the medium term, the UK and devolved governments will need to decide what happens after programmes like Warm Front and CERT come to an end in 2012. A clearer route map for how the 2016 target (or 2018 in the case of Wales) will be delivered will also be necessary.

Our recommendations for medium-term action include:

- Design pay-as-you-save schemes for energy efficiency once trials have shown which approaches are most effective
- Announce an intention to introduce minimum energy efficiency standards on private properties and rented properties
- As social tariffs are phased out and the 'kernel' group of the mandatory price support scheme expanded, Cold Weather Payment recipients should be next in line to receive the rebate.

Long-term measures

In the long term, the new fuel poverty strategy should be implemented.

If a single National Energy Scheme (as proposed by NEA) is not introduced, the fairest and most progressive approach to tackling fuel poverty would be to run a national pay-as-you-save type programme to provide energy efficiency measures for those who are able to pay, which would be supplemented by a publicly-funded programme to provide improvements to those on the lowest incomes who cannot benefit from PAYS. Publicly-funded income support measures and/or energy cost reductions should then be provided to those who are still unable to afford to heat their homes adequately.

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