



THE COST OF AFFORDABLE WARMTH



Campaigning for Warm Homes

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OVERVIEW

This report examines the relationship between Government and energy supplier investment in programmes to mitigate fuel poverty and the extent to which these fall short of the measures required to attain statutory targets on fuel poverty eradication. In particular, it looks at the current levels of funding made available by Westminster and Holyrood Governments to tackle fuel poverty, while examining the disparity between existing funding and the resources needed to eradicate fuel poverty.

Significant sums of money have been made available for energy efficiency programmes, to assist older households through Winter Fuel Payments and energy suppliers are encouraged to provide support for their most vulnerable customers in the form of social tariffs and other social offerings. Despite this range of measures it is clear that much more needs to be done.

The rise in fuel prices over recent years has reversed much of the progress that has been made towards meeting fuel poverty targets. To mitigate the impact of high energy prices, and in recognition of the fact that the era of comparatively low prices may never return, further action is needed to address the three key essential requirements for affordable warmth: improved heating and insulation standards, adequate levels of household income and support with energy costs for vulnerable households.

Recommendations made in the report include:

- A single national energy efficiency programme for England delivering all cost-effective energy measures in a structured and targeted manner as currently planned for Scotland.
- Maximising incomes by ensuring all households claim their full entitlement to welfare benefits and are given greater assistance in negotiating the claims process.
- In light of the impact of global oil and gas prices on fuel poverty suppliers must offer the optimum terms for domestic fuel compatible with maintaining a secure and efficient energy supply industry.

- Introduction of a social tariff, consistent with Ofgem's definition of what a social tariff should be, and that is not subject to a cap on numbers of beneficiaries.
- Revisions to the Winter Fuel Payment allowing the most vulnerable non-pensioners to benefit from this form of assistance
- The need to investigate additional sources of funding for fuel poverty programmes including revenues generated from auction of carbon permits under the EU Emissions Trading System

INTRODUCTION

Fuel poverty is the inability to afford adequate warmth in the home, usually defined as having to spend 10% or more of income to meet recognised heating standards but also including other energy services such as cooking and use of other appliances. Fuel poverty is caused by a combination of three factors: poor energy efficiency of the dwelling, low disposable household income and the high price of domestic fuel.

Since 1997 fuel poverty has been fully recognised as a social, and by extension, political problem. As a consequence a number of policy initiatives have been devised to address the problem such as: the Winter Fuel Payment to help pensioners with fuel bills; energy efficiency programmes to help reduce consumption or deliver affordable warmth; and energy supplier social tariffs to offer preferential terms to vulnerable consumers. The Ministerial Foreword to the UK Fuel Poverty Strategy 5th Annual Progress Report¹ indicated that some £20 billion had been spent on fuel poverty-related programmes and benefits since 2000.

This claim raises a number of issues the most important of which is that, whilst the various programmes and policies might mitigate the worst effects of fuel poverty in some cases, they are poorly targeted and uncoordinated. The result is that despite significant expenditure on fuel poverty-related activity, the actual gains in terms of providing affordable warmth have often been modest.

The legislative basis for fuel poverty eradication in the Warm Homes and Energy Conservation Act 2000 and the Housing (Scotland) Act 2001 has led to the belief that the respective Governments face a legal obligation to end fuel poverty. However this belief, in England at least, has been shaken by the appalling increases in the level of fuel poverty since 2004, largely as a consequence of unprecedented energy price increases. This development created a view that the Government was not implementing the necessary measures or making sufficient resources available to meet its legal obligations resulting in a legal action by Friends of the Earth and Help the Aged, seeking Judicial Review of the Government's actions. The judgement in favour of the Government took the view that the terms of the Warm Homes and Energy Conservation Act were complied with by publishing the UK Fuel Poverty Strategy and implementing programmes that sought to meet targets.

¹ The UK Fuel Poverty Strategy 5th Annual Progress Report, BERR, Defra, the Scottish Government et al, December 2007.

A fundamental element of the judgement concluded that fuel poverty aspirations were subordinate to wider budgetary considerations and that it was not feasible to expect that all the necessary resources to end fuel poverty could be made available.

In fact it may not even be possible to quantify the level of resources required to eliminate fuel poverty. For example there is always the issue of ‘churn’ where families and individuals enter and exit fuel poverty as their economic circumstances change and, in addition and as we have seen, rising energy prices can radically alter the whole profile and incidence of fuel poverty.

What can be done, however, is to look at what resources are currently available for fuel poverty programmes and consider ways in which they might be increased or their use optimised to minimise both the current incidence of fuel poverty and the likelihood of households becoming fuel poor in the future.

England

The Warm Homes and Energy Conservation Act 2000 required the Westminster Government to publish a strategy setting out how it proposed to eradicate fuel poverty in England by 2016 and also to identify and adopt an interim target. The interim target, also published in the UK Fuel Poverty Strategy 2001, was to eradicate fuel poverty for all vulnerable households by 2010. Both the interim and final targets were qualified by an ‘as far as reasonably practicable’ provision.

Progress towards these targets in England is assessed in The UK Fuel Poverty Strategy Annual Progress Reports jointly published by the Department for Environment, Food and Rural Affairs and by the Department for Business, Enterprise and Regulatory Reform.²

Trends in fuel poverty in England since 1996 (millions)									
	1996	1998	2001	2002	2003	2004	2005	2006	2008³
All households	5.1	3.4	1.7	1.4	1.2	1.2	1.5	2.4	4.0
Vulnerable households	4.0	2.8	1.4	1.2	1.0	1.0	1.2	1.9	3.2

² These two departments shared responsibility for fuel poverty policy in England until superseded by the creation of the new Department for Energy and Climate Change in October 2008.

³ There is an approximate time lag of two years in the official data; figures for 2008 represent an NEA estimate.

The annual progress reports showed considerable progress towards meeting both these targets, demonstrated in the rapidly falling incidence of fuel poverty between 2000 and 2003. However, since 2004, progress has stalled and then reversed to the extent that the current incidence of fuel poverty exceeds that of a decade ago.

Scotland

In Scotland, the eradication of fuel poverty is a priority within the Housing (Scotland) Act 2001. The Scottish Fuel Poverty Statement (SFPS) was published by the Scottish Government in 2002 under paragraph 88 of the Act. The SFPS sets out Scotland’s overall objective for tackling fuel poverty, which is a commitment to ensuring “so far as reasonably practicable, that people are not living in fuel poverty in Scotland by November 2016”.

The SFPS sets out a number of milestones to check progress. In particular, it set the Scottish Government a milestone of achieving a 30% reduction in fuel poverty by 2006 from the levels recorded in the Scottish House Condition Survey (SHCS) 2002. The SHCS data for 2006 is expected to become available in 2008/09 and it will then become possible to measure whether this outcome milestone has been met. The SFPS also set a milestone to achieve ‘a further reduction in fuel poverty numbers by 2010’, and stated that a precise target should be quantified at a later stage – however this target has not yet been set.

Trends in fuel poverty in Scotland since 1996 (thousands) ⁴							
	1996 ⁵	2002	2003	2004	2005	2006	2008
Extreme fuel poor households⁶	182,000	71,000	112,000	119,000	173,000	-.7	-.8
All fuel poor households	756,000	293,000	350,000	419,000	543,000	-	-

A dramatic fall in fuel poverty numbers can be seen between 1996 and 2002. However from 2002 we can see fuel poverty numbers rising again, a movement which is likely to have been caused in large part by increases in fuel prices from this date.

⁴ Data taken from the Scottish House Condition Survey.
⁵ The figures for 1996, 2002 and 2003/4 are revisions of previously published estimates. These revisions are due to a change in the methodology for the treatment of missing values.
⁶ Defined as a household having to spend more than 20% of its income on fuel.
⁷ Data currently not available.
⁸ Data currently not available.

FACTORS IN FUEL POVERTY TRENDS

England

UK Government estimates of the factors contributing to reductions in fuel poverty in England have fluctuated over the years of reporting:

- The 2003 progress report attributed around half of the reduction in fuel poverty between 1996 and 2001 to falling energy prices. It was recognised that movements in energy prices since 2001 would have little impact on fuel poverty but that the benefits of increased energy efficiency programmes (Warm Front, the Energy Efficiency Commitment and local authority investment) would have a more significant role.
- The 2004 progress report suggested that continued reductions in fuel poverty were believed to be largely the result of higher incomes, particularly through the benefits system e.g. the Minimum Income Guarantee for the most economically disadvantaged households
- The 2005 progress report contained further findings from analysis of The English House Condition Survey that confirmed that 61% of the reduction was attributable to higher incomes (e.g. Pension Credit, Child and Working Tax Credits). It was also noted that Winter Fuel Payments alone had removed 100,000 households from fuel poverty and that if the payment were to be used to defray energy costs (as opposed to being classed as income) then a further 400,000 pensioner households would be taken out of fuel poverty. It was further estimated that energy prices and energy efficiency improvements accounted for 22% and 17% of the reduction respectively.
- The 2006 report noted that the positive effect of energy price movements had lessened because of increasing energy prices, although the UK Government still believed that current programmes could reduce fuel poverty by around 33%. This limited potential resulted from the fact that a significant proportion of vulnerable households estimated to remain fuel poor after 2010 occupied solid-walled properties or had no access to the mains gas network. This report also addressed a key issue of intractable fuel poverty: *'a further prominent reason for households remaining in fuel poverty in 2010 in the modelling*

was the fact that the majority of these households were in receipt of extremely low incomes; so much so that energy efficiency measures alone may not always be enough to take them out of fuel poverty.'

- The 2007 report acknowledges the impact of rising energy prices on fuel poverty as the incidence of fuel poverty begins to increase. Reviewing the period 1996-2005 the Government assessment is that 75% of the reduction results from higher household income with around 20% attributable to energy efficiency improvements with an extremely modest 5% resulting from movement in energy prices.
- The 2008 report presents the stark reality that fuel poverty in England has risen by 1 million households between 2005 and 2006 including an additional 700,000 vulnerable households. This major reversal is caused by the dramatic increases in domestic gas and electricity prices.

Scotland

- The Scottish House Condition Survey (SHCS) 2002 report estimated that 50% of the reduction in fuel poverty numbers between 1996 and 2002 could be attributed to increases in household incomes, 35% to decreased fuel prices and 15% to improvements in the energy efficiency of the stock.
- Analysis of the SHCS 2003/04⁹ revealed an increase in fuel poverty numbers of 57,000 since 2002. While not a statistically significant change, the direction of this movement was found to be in line with rising fuel costs over this period.
- The SHCS 2004/05 confirmed that changes in fuel prices have been an important factor in both the reduction in numbers in fuel poverty between 1996 and 2002 and in the subsequent increase.
- Because of the small sample sizes in the 2004/5 and 2005/6 surveys, the precision of any estimates of the effect of improved energy efficiency

⁹ Note: the SHCS moved to a continuous format in 2003. Prior to 2003 surveys were conducted in 1991, 1996 and 2002 and typically consisted of sample sizes of around 15,000 paired social and physical cases. The 2003/4, 2004/5 and the 2005/6 surveys gathered data from almost 4,000 households and dwellings, with paired social and physical data available for around 3,000 of these. Given the smaller sample size compared to earlier surveys, these reports do not provide in-depth estimates. A second report using all 3 years data is due to follow in 2008. A similar sample size to the previous surveys (15,000 cases) should be achieved over a five year period.

measures will be poor, as will estimates of the offset of those improvements against the impact of fuel price increases. Nevertheless, the SHCS 2005/06 report reveals that there would have been no statistically significant change in fuel poverty between 2004/5 and 2005/6 had fuel prices not increased in real terms over the period.

The report also showed that almost all (99%) of those in the lowest income band (less than £100 p.w.) are fuel poor. More than three quarters of households in this income band experience extreme fuel poverty compared with no households in the top two income bands and 16% of households in the second lowest income band.

Rural households are more susceptible to fuel poverty than urban households. Just over a third of those in rural areas suffer fuel poverty compared with a fifth of urban households. 14% of rural households are in extreme fuel poverty, making extreme fuel poverty more than twice as likely for a rural household as for an urban household.

MOVEMENT IN DOMESTIC ENERGY PRICES 2003-2008

England

The Department for Business, Enterprise and Regulatory Reform published a ready-reckoner that demonstrated the link between energy prices and fuel poverty. The calculation estimated that for every 1% increase in domestic fuel bills an additional 40,000 households in England would be forced in to fuel poverty. Based on domestic energy price movements between 2002 and 2008 of 132%, this would suggest that fuel poverty in England now affects more than 6 million households. Of course the relationship between energy prices, household incomes and energy efficiency standards is much more complicated than this suggests and NEA estimates that there are currently some 4 million fuel-poor households in England.

Gas and electricity prices in England – 2002-2008¹⁰				
	2002	2008	Increase (£)	Increase (%)
Gas	£310	£817	£497	163%
Electricity	£244	£471	£227	93%
Combined bill	£554	£1,288	£724	132%

¹⁰ Figures are based on ongoing monitoring of supplier price increase undertaken by NEA.

Scotland

The Scottish House Condition Survey team has published an update to a statistical document called *Estimate of fuel poor households in Scotland*, originally published in April 2003. Updated in March 2008, this document provides an estimate of fuel poor households in Scotland by percentage increase in fuel prices and states that for every 1% increase in fuel prices, roughly 8,000 more dwellings in Scotland enter fuel poverty (this calculation takes no allowance for any increases in household incomes or improvement in housing stock energy efficiency). Based on this calculation and fuel price increases, EAS estimates the number of households in Scotland currently in fuel poverty at 850,000.

Gas and electricity prices in Scotland – 2002-2008 ¹¹				
	2002	2008	Increase (£)	Increase (%)
Gas	£311	£575	£264	85%
Electricity	£267	£419	£152	57%
Combined bill	£578	£994	£416	72%

FUEL POVERTY AND THE 'REASONABLY PRACTICABLE' DEFENCE

Energy price rises have totally undermined the Government's fuel poverty strategy, leading to criticism that fuel poverty was a 'fair weather' issue – in good times the Government could take credit for the positive progress whilst in times of crisis, such as the present, it could be argued that the matter was beyond the power of any Government.

This position was contested by Friends of the Earth and Help the Aged who sought Judicial Review of what they perceived to be Government failure to adopt the necessary policies and programmes to meet fuel poverty commitments. In the event the court sided with the Government, taking the view that existing programmes had demonstrated good faith in endeavouring to meet fuel poverty targets and that it was unreasonable to expect an open-ended allocation of resources from finite public spending to remedy the failure of fuel poverty policy.

¹¹ Figures represent annual fuel bills (standard credit tariff), source: *Quarterly Energy Prices: September 2008*, BERR <http://www.berr.gov.uk/files/file47741.pdf>. NB: these figures do not reflect the price rises announced last autumn.

Relevant text from The Warm Homes and Energy Conservation Act 2000:

The [Fuel Poverty] strategy must—

- (a) describe the households to which it applies,
- (b) specify a comprehensive package of measures for ensuring the efficient use of energy, such as the installation of appropriate equipment or insulation,
- (c) specify interim objectives to be achieved and target dates for achieving them, and
- (d) specify a target date for achieving the objective of ensuring that as far as reasonably practicable persons in England or Wales do not live in fuel poverty.

GOVERNMENT ASSESSMENTS OF THE COST OF ERADICATING FUEL POVERTY

England

Analysis carried out by UK Government statisticians¹² indicated that the cost of eradicating fuel poverty for all vulnerable households in England by 2010 would be of the order of £13.2 billion. This figure was based on an assumption that fuel price increases would follow a 'central' scenario (as opposed to a high or low scenario) and that the consequence would be 1.2 million fuel-poor vulnerable households by 2010.

The required measures and levels of expenditure to remedy this projection were set out as follows:

- 300,000 vulnerable households taken out of fuel poverty by conventional insulation measures and installation of gas central heating at a cost of £700 million
- Extension of the gas network or use of renewable technologies would remove 160,000 vulnerable households from fuel poverty at a cost of between £850 million and £950 million

¹² Defra evidence submitted as part of Government defence to the FoE and HtA case for Judicial Review

- 140,000 vulnerable households taken out of fuel poverty as a result of replacement of old inefficient boilers at a cost of £1.1 billion
- Insulating solid walls would remove 170,000 vulnerable households from fuel poverty at a cost of £2.1 billion
- Solar water heating installation could reduce the number of vulnerable fuel-poor households by 40,000 at a cost of £700 million
- All pensioner households receive full benefit entitlement thereby taking a further 40,000 vulnerable households out of fuel poverty
- The remaining 230,000 vulnerable fuel-poor households could have their energy bills reduced by £150 at a cost of £35 million – no projection was made of the outcome
- The overall cost of the above measures would be £5.5 billion without any consideration of targeting, marketing, administration or location costs

Government statisticians then factored in additional complications including a 20% uplift in expenditure to take account of the non-vulnerable households who would inevitably benefit from the measures and a further 20% uplift to reflect administration and marketing costs associated with the programmes of work. Finally it was assumed that the programmes would have a 60% success rate in targeting vulnerable fuel-poor households and that scaling expenditure upwards to reach all relevant households would result in a theoretical funding requirement of £13.2 billion. Since actual expenditure until 2008 was projected at £1.7 billion there would be a shortfall of £11.5 billion between available funding and what was required.

Further modelling work is ongoing to identify the implications of the Government's optimistic assumptions of recent trends in energy prices. Clearly the £11.5 billion estimate is a drastic underestimation of what is now needed.

Scotland

According to the Scottish House Condition Survey 2003/04, 575,000 dwellings failed to meet the Scottish Housing Quality Standard (SHQS), reaching less than 5 on the NHER8 scale and an average expenditure of £2,800 would be

required per dwelling in order for them to meet the SHQS. Current average expenditure per job in the Central Heating Programme is £2,800.

A further 775,000 dwellings are in the range NHER 5 to 7 and average expenditure of £750 per dwelling would be required for them to exceed NHER 7. Hard to treat properties will require a still higher level of investment in measures to improve their energy efficiency. Relevant measures for hard to treat properties are currently not available in grant schemes aimed at tackling fuel poverty.

Overall, to fuel poverty proof all homes in Scotland, that is, to NHER 7 or better, an estimated £1.7 billion is required. This is the equivalent of £170 million per year over each of the next 10 years which represents 7.72% of the total Scottish Budget for 2005-06. This investment will have to come from a combination of disparate sources including homeowners, private and social landlords, fuel utilities and central and local government grants.

CURRENT SOURCES OF FUNDING FOR FUEL POVERTY MEASURES

It can be extremely difficult to quantify total expenditure on fuel poverty programmes. Some programmes with a general social purpose such as Winter Fuel Payments are often claimed by Government as part of the spend on fuel poverty; similarly, even schemes that appear to be specifically directed at vulnerable fuel-poor households, such as Warm Front and the Central Heating Programme, actually exclude a large proportion of fuel-poor households whilst assisting many comparatively affluent households.

Financial support

The Winter Fuel Payment is made to virtually all households where one or more members are aged 60 or over. The payment normally ranges between £200 for recipients aged 60-79 and £300 for recipients aged 80 or over. During the coming winter 2008/2009 the lower rate payment is to be increased by £50 and the higher rate payment by £100. The total cost to the Government in 2008/2009 will be in the region of £2.7 billion.

In addition, the UK Government recently announced that Cold Weather Payments (paid to vulnerable households on the lowest incomes) would increase from £8.50 to £25. Since this payment is only made during protracted periods of exceptionally severe weather the UK Government estimated that this measure might cost £16 million over the coming winter. In fact, prolonged periods of cold weather in December and February resulted in more than £200 million¹³ being paid out over the winter period.

Expenditure on Winter Fuel Payments and Cold Weather Payments – Great Britain¹⁴		
[£Millions]		
Status	Winter fuel payments, including over 80 payments	Cold weather payments
Outturn		
1998-99	194	0.2
1999-2000	759	1.0
2000-01	1,749	30.0
2001-02	1,681	15.3
2002-03	1,705	14.2
2003-04	1,916	3.5
2004-05	1,962	1.8
2005-06	1,982	8.4
2006-07	2,015	3.4
Provisional outturn		
2007-08	2,061	4.0
Plans		
2008-09	2,664	£209

The UK Government also prepared estimates of the impact on fuel poverty of a number of income-based scenarios. Because fuel poverty is defined in terms of needed spend against household income it is clear that action to reduce fuel bills is much more effective than action to increase household income.

¹³ House of Commons Hansard, March 16 2009, Col. 639

¹⁴ House of Commons Hansard, September 29 2008, Col. 2380

Impact of different fiscal measures on fuel poverty in England ¹⁵	
Fiscal measure	Fuel poverty reduction
£100 additional income to fuel-poor households	5%
£200 additional income to fuel-poor households	5%-10%
£300 additional income to fuel-poor households	10%-15%
£100 reduction in domestic fuel bills	45%
£200 reduction in domestic fuel bills	60%
£300 reduction in domestic fuel bills	75%

Energy Efficiency

Warm Front

The UK Government's main programme to deliver heating and insulation improvements to vulnerable households in England is Warm Front. Warm Front provides grant assistance to a maximum of £2,700 (£4,000 where oil-fired central heating is installed) to private sector households in receipt of means-tested or disability-related benefits. Additional funding for Warm Front was recently announced taking the scheme's budget up to £974 million over the period 2008-2011.

Expenditure on the Warm Front programme (£Millions)	
Year	Expenditure
2001-02	197
2002-03	163
2003-04	164
2004-05	166
2005-06	192
2006-07	320
2007-08	350
2008-09	400

¹⁵ As per footnote 12

Central Heating Programme / Warm Deal

The Scottish Government currently has two programmes aimed at tackling fuel poverty: the Warm Deal and Central Heating Programme¹⁶. The Warm Deal provides a grant of up to £500 to eligible households in receipt of certain means-tested benefits for a number of energy efficiency measures and a smaller grant of up to £125 for pensioner households aged over 60 not in receipt of benefits. The Central Heating Programme provides a package of measures up to a value of £3,500 (if the lowest cost central heating system is more than £3,500 the householder then the grant maximum is £5,500).

The table below illustrates expenditure on fuel poverty programmes in Scotland since 2002.

Annual expenditure on fuel poverty programmes – Scotland (£Millions)							
Central Heating Programme ¹⁷	£29.52	£46.44	£50.16	£57.00	£45.84	£48.10	– ¹⁸
Warm Deal	£9.34	£8.99	£7.06	£5.99	£5.56	£6.64	–

CERT

The Carbon Emissions Reduction Target (CERT) funds a range of domestic energy efficiency measures for all households regardless of tenure or financial circumstance. However, whilst primarily a carbon reduction programme, CERT retains a significant social welfare dimension in that 40% of the carbon reductions are to be achieved in dwellings occupied by Priority Group customers i.e. households receiving a means-tested or disability-related benefit or where a family member is aged 70 or over. The Government estimates that over the three-year life of the programme some £1.5 billion will be spent on assisting the Priority Group.

¹⁶ From April 2009 both these programmes will be replaced with the Scottish Government's recently announced 'Energy Assistance Package'.

¹⁷ The Programme in the public sector for local authorities ended in 2003-04 and for housing associations in 2004-05. Because of the numbers involved the Programme did not end for Glasgow Housing Association until 2006-07.

¹⁸ £55.9m has been allocated for expenditure on both the Warm Deal and Central Heating Programme in 2008/09. This figure was originally £45.9m, but an additional £10m was announced by Nicola Sturgeon for the Central Heating Programme on 18 October 2008. £55.8m has been allocated for expenditure on both programmes in each year from 2009-2011.

Expenditure on the Carbon Emissions Reduction Target and Energy Efficiency Commitment¹⁹	
2002-2005	£410m
2005-2008	£1.2bn
2008-2011	£2.8bn

In addition, considerable resources have been devoted to improve heating and insulation standards in the social rented sector. The table below shows the level of related expenditure by local authorities in England on their own housing stock – it does not include spend by Registered Social Landlords (housing associations).

Local authority-owned dwellings and expenditure on central heating and insulation²⁰							
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Central heating							
Number of dwellings	107,188	127,580	125,682	133,732	140,066	139,494	135,477
Expenditure (£millions)	221	261	279	326	380	426	426
Insulation							
Number of dwellings	111,943	105,572	119,257	138,116	111,633	89,817	81,563
Expenditure (£millions)	62	58	54	59	44	35	33

The Home Energy Saving Programme

In September 2008 the Prime Minister announced additional funding of £1 billion for domestic energy efficiency programmes through an increased obligation on energy supply companies and, for the first time, on electricity generators. The increased investment by energy suppliers will raise funding for the CERT programme by 20% or some £560 million with £300 million extra funding for work with the Priority Group. In addition the Government has allocated some £350 million to fund a Community Energy Savings Programme across Great Britain. The proposal should result in 100 new community-based initiatives operating in the poorest parts of the country and adopting a street-by-street approach to the delivery of practical heating and insulation improvements.

¹⁹ Source: House of Commons Hansard, February 10 2008, Col. 384. The Energy Efficiency Commitment required 50% of energy savings to be achieved in the homes of Priority Group customers – those in receipt of a means-tested or disability-related benefit. The CERT programme requires 40% of carbon emission reductions to be achieved on behalf of the Priority Group which now includes all households aged 70 or over.

²⁰ House of Commons Hansard, October 28 2008, Col. 946

Energy prices

The six major energy suppliers have reached a voluntary agreement on funding for social offerings aimed at their more vulnerable customers. Collective expenditure on these programmes will total at least £150 million by 2011; the agreement adds some £225 million to funding already voluntarily committed by the energy suppliers. The energy regulator, Ofgem, has sanctioned an extremely liberal interpretation of what constitutes social assistance. Incorporated within the definition of social spend are:

- Social tariffs, defined as 'at least as good as the lowest tariff offered to a customer in that region on an enduring basis
- Other types of rebates or discounts offered to disadvantaged customers but which do not meet social tariff criteria
- Trust funds and partnership initiatives
- Expenditure on energy efficiency measures over and above statutory requirements
- Equalisation of prepayment charges with direct debit rates where the measure is effectively targeted at fuel-poor households

ADDITIONAL SOURCES OF FUEL POVERTY FUNDING

Clearly, significant resources are being devoted to fuel poverty programmes but these fall drastically short of what is required to enable Government to get the UK Fuel Poverty Strategy back on track. This issue was discussed at some length in the judgement on the court action instigated by Friends of the Earth and Help the Aged when seeking Judicial Review of the Government's failure to meet fuel poverty targets.

Parliament obliged the Secretary of State to formulate a policy strategy to ensure, so far as reasonably practicable, the desired objectives. It required him to publish his aspirations by way of targets. It then required the government to take the steps which in its opinion were necessary to implement the policy strategy. Government took up the challenge by (amongst other things) specifying that it would try, so far as reasonably

practicable, to achieve the targets. In doing so, it imported a statutory duty to make those efforts. It did not assume a statutory duty to achieve the desired results, whatever the cost.

Whilst the claimants have been given leave to appeal against this decision the courts have stated the view that competing Government priorities should be respected and recognised that, in times of financial uncertainty, fuel poverty targets will not be a uniquely special case.

The UK Fuel Poverty Strategy 6th Annual Progress Report states that: ‘the aim of the UK Government and the Devolved Administrations remains the eradication of fuel poverty as detailed in the UK Fuel Poverty Strategy.’ This aim cannot be realised and so it is imperative to consider sources of additional funding to enable fuel poverty objectives to be met.

Maximising Household Income

The Government has identified Benefit Entitlement Checks as a low-cost measure that could have a significant beneficial impact on fuel poverty. This view is supported by the sheer scale of unclaimed benefit identified by research carried out for the Department for Work and Pensions.

A benefit health check is already an integral part of the Warm Front programme. A benefit health check is also offered to all those who apply for the Warm Deal and Central Heating Programmes in Scotland and will be included in the Energy Assistance Package, the scheme due to replace these programmes from April 2009.

Estimates of non-take-up of Income Support			
Year	Household type	Number (range)	Unclaimed amount (range)
2006/07	Non-pensioners with children	70,000 : 150,000	£170m to £460m
2005/06	Non-pensioners with children	70,000 : 150,000	£190m to £460m
2004/05	Non-pensioners with children	60,000 : 110,000	£160m to £360m
2003/04	Non-pensioners with children	20,000 : 110,000	£60m to £500m
2002/03	Non-pensioners with children	20,000 : 110,000	£50m to £420m
2001/02	Non-pensioners with children	10,000 : 90,000	£40m to £350m

Estimates of non-take-up of Pension Credit ¹			
Year	Household type	Number (range)	Unclaimed amount (range)
2006/07	Pensioners	1,260,000 : 1,820,000	£1,960m to £2,810m
2005/06	Pensioners	1,170,000 : 1,740,000	£1,620m to £2,510m
2004/05	Pensioners	1,140,000 : 1,630,000	£1,460m to £2,070m
2003/04	Pensioners	1,260,000 : 1,840,000	£1,630m to £2,370m
2002/03	Pensioners	570,000 : 960,000	£800m to £1,520m
2001/02	Pensioners	600,000 : 870,000	£730m to £1,260m

¹ MIG of IS pre-2003-04

Estimates of non-take-up of Housing Benefit			
	Household type	Number (range)	Unclaimed amount (range)
2006/07	Pensioners	200,000 : 350,000	£380m to £770m
	Non-pensioners with children	160,000 : 320,000	£360m to £880m
2005/06	Pensioners	200,000 : 310,000	£370m to £660m
	Non-pensioners with children	110,000 : 210,000	£230m to £580m
2004/05	Pensioners	230,000 : 370,000	£410m to £740m
	Non-pensioners with children	30,000 : 130,000	£60m to £310m
2003/04	Pensioners	210,000 : 360,000	£310m to £610m
	Non-pensioners with children	30,000 : 120,000	£60m to £320m
2002/03	Pensioners	180,000 : 320,000	£270m to £570m
	Non-pensioners with children	40,000 : 150,000	£60m to £300m
2001/02	Pensioners	180,000 : 340,000	£230m to £530m
	Non-pensioners with children	30,000 : 100,000	£40m to £250m

Estimates of non-take-up of Council Tax Benefit			
	Household type	Number (range)	Unclaimed amount (range)
2006/07	Pensioners	1,680,000 : 2,140,000	£1,130m to £1,510m
	Non-pensioners with children	320,000 : 500,000	£180m to £340m
2005/06	Pensioners	1,710,000 : 2,150,000	£1,080m to £1,420m
	Non-pensioners with children	260,000 : 420,000	£140m to £280m
2004/05	Pensioners	1,820,000 : 2,240,000	£1,060m to £1,370m
	Non-pensioners with children	130,000 : 260,000	£70m to £160m

Estimates of non-take-up of Council Tax Benefit			
2003/04	Pensioners	1,680,000 : 2,080,000	£880m to £1,140m
	Non-pensioners with children	140,000 : 260,000	£70m to £160m
2002/03	Pensioners	1,460,000 : 1,820,000	£660m to £870m
	Non-pensioners with children	110,000 : 240,000	£50m to £130m
2001/02	Pensioners	1,410,000 : 1,760,000	£590m to £770m
	Non-pensioners with children	100,000 : 240,000	£50m to £130m

The tables above consider only those households defined as vulnerable. They take no account of non-pensioner households or those without children nor do they reflect those households where some form of disability brings the household in to the vulnerable category. Similarly this analysis excludes the system of Tax Credits administered by HM Revenue and Customs.

The tables do illustrate the massive under-claiming of means-tested benefits in Great Britain. The amount of unclaimed benefit in 2006-2007 ranges from £4.2 billion to £6.8 billion.

Funding energy efficiency programmes – windfall taxes

In the context of what appear to be inordinately high energy prices, it is inevitable that the case for a windfall tax is frequently put forward as a means of funding fuel poverty programmes. The precedent for such a tax on utilities was set in 1997 when the then Chancellor, Gordon Brown, imposed a windfall tax on privatised utilities. In total the tax raised some £5.2 billion including £1.45 billion from Regional Electricity Companies and £650 million from electricity generators; other contributors included British Gas, Centrica and British Energy. The revenue from this tax was spent on a wide range of Welfare to Work programmes and other employment and training-related schemes. None of the funding raised was utilised in fuel poverty-related programmes.

Speculation that the Chancellor would impose a new windfall tax on the energy industry in the 2008 Budget Statement proved unfounded. It was assumed that the Chancellor had resisted this option following claims that such a tax would threaten essential investment in the national energy infrastructure at a time when security of energy supplies was becoming an increasing issue of concern.

In its response to the Government's Energy Review in 2006 the industry regulator, Ofgem, suggested that the free tradable carbon emissions allocated to the electricity generating sector might be an appropriate means of funding fuel poverty programmes once auctioning of these allowances started in 2008. Ofgem estimated that the value of free allowances to electricity generators would be in the region of £9 billion over the period 2008-2012.

This is a complex issue. Generators maintain that resources are needed for investment in maintaining the energy infrastructure and, in addition, that the 'free' permits have to some extent protected domestic consumers from costs that would inevitably have been passed through. However the crucial area of concern for fuel poverty campaigners is the limited resources available for both 'hard' and 'soft' measures to assist fuel-poor households.

NEA has endorsed the principle of a 'windfall tax' on the benefits accruing from the free allocation of permits. The main opportunity to increase funding for fuel poverty programmes currently appears to be some form of cross-subsidy within the domestic energy sector – this is what happens with both CERT and with suppliers' social assistance programmes and decisions on how EU ETS revenues are expended should be taken by elected legislators rather than by private sector companies.

EAS, while having some sympathy with the calls for a windfall tax on generators and suppliers believes that, because of the manner in which the devolved administration operates, no certainty would ever be available to ensure that a windfall tax given as part of the Scottish block grant would ultimately be ring-fenced and used for fuel poverty programmes.

CONCLUSION: THE WAY FORWARD

The current scale of fuel poverty is such that the objective of eradication is subordinate to policies and programmes to mitigate its negative impact. Programmes are needed that can address the three elements of energy efficiency, low household income and high energy prices.

Consequently NEA reiterates, and EAS supports, the charity's four main policy objectives as contributors to affordable warmth:

- A single national energy efficiency programme for England delivering all cost-effective energy measures in a structured and targeted manner²¹. Energy efficiency programmes have historically been fragmented and targeted on individual households. This approach is wasteful, inefficient and failing to optimise use of resources.
- Greater emphasis on ensuring that all households claim their full entitlement to welfare benefits and greater assistance in negotiating the claims process.
- Extension of the Winter Fuel Payment to the most disadvantaged and vulnerable households who are currently ineligible for this payment. This measure and increases in the existing payment could easily be met from the under-spend on benefits resulting from non-take up of entitlement.
- Introduction of a social tariff across the domestic supply industry that is consistent in terms of eligibility criteria and degree of benefit and that is not subject to a cap on numbers of beneficiaries

The scale of fuel poverty in England and Scotland continues to challenge the resources of Governments, housing providers, householders and fuel utilities.

It is clear that while substantial amounts of monies are currently being invested, they are insufficient to increase the energy efficiency levels of housing to a level whereby homes become 'fuel poverty proofed'.

²¹ The Scottish Government's recently announced 'Energy Assistance Package' to be introduced in Scotland from April 2009, to replace the separate Central Heating Programme and Warm Deal, will constitute such a single programme as described here.

Significantly increased levels of funding are required as demonstrated in this report²².

However, fuel poverty is not just about levels of energy efficiency of homes - it is also about the income levels of those living in these homes and more specifically, their disposable incomes. The level of under-claimed benefits in just four key areas amounts to a range of between £4.2 to £6.8 billion. Full take up of entitlement could also bring about a significant reduction in the number of vulnerable fuel-poor households.

The third key element in the fuel poverty equation is the cost of domestic fuel. Expenditure by fuel utilities on programmes such as CERT clearly does much in the way of helping to reduce the overall demand for energy by individual householders whilst their social tariffs and discounted prices offer support in reducing householder energy bills. But global markets will continue to dictate the prices paid by generators and suppliers and this, in turn, will determine the prices paid by every householder for their domestic energy. The research from Defra shows that if energy bills were to fall by £300 per household then there would be a dramatic reduction of 75% in the number of fuel-poor households. It is therefore incumbent on our suppliers to offer the keenest terms for domestic fuel, while taking into account global prices paid for oil and gas. It is also essential that the Ofgem definition of a social tariff²³ be adopted and implemented by all energy suppliers and that common eligibility criteria and benefits of the social tariff should be determined by suppliers, by Government and by the regulator.

It is clear that there is a requirement for continued and increased investment by Government and a joint approach by all key players to ensure that we continue to invest in the energy efficiency of our housing stock in order to 'fuel poverty proof' homes. We must also ensure that household incomes are maximised by encouraging full claiming of state benefits and that, in the case of vulnerable households, a combination of high heating and insulation standards, adequate levels of household income and effective social tariffs can deliver affordable warmth.

²² It should be recognised however that a proportion of the housing stock cannot cost-effectively be improved to the necessary standard.

²³ Ofgem defines a social tariff as one at least equal to the lowest prices charged by a supplier in a geographical area regardless of the payment method.



Energy Action Scotland
Suite 4a, Ingram House
227 Ingram Street
Glasgow
G1 1DA
Tel: 0141 226 3064
Fax: 0141 221 2788
Email: eas@eas.org.uk
<http://www.eas.org.uk>



Campaigning for Warm Homes

National Energy Action
St Andrew's House
90-92 Pilgrim Street
Newcastle upon Tyne
NE1 6SG
Tel: 0191 261 5677
Fax: 0191 261 6496
Email: info@nea.org.uk
<http://www.nea.org.uk>

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