



Campaigning for Warm Homes



UK FUEL POVERTY MONITOR

THE WRONG DIRECTION

How UK Fuel Poverty Policy
Lost its Way

Sixth Year Report
May 2008

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The Wrong Direction: How UK Fuel Poverty Policy Lost Its Way

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Background

The Westminster Government and the Assemblies of Wales and Northern Ireland share an interim target to end fuel poverty for vulnerable households by 2010. **This target will not be reached.** The administrations of England, Scotland and Northern Ireland are committed to ending fuel poverty for all households by 2016; the target date for the Welsh Assembly Government is 2018. **It seems highly improbable that any of these targets will be achieved.**

The reason for these likely failures is two-fold: the first is the unprecedented increases in domestic energy prices between 2003 and the present which saw gas prices rise by 94% and electricity prices by 70%; **the second is the lamentable failure of Government to respond in a determined and constructive manner to these price increases.**

This failure to act positively is compounded in some cases by the perverse and negative action of reducing funding for energy efficiency programmes. As the single most rational and sustainable antidote to fuel poverty, and despite additional resources made available through the Carbon Emissions Reduction Target, **reduced funding for heating and insulation improvements in the homes of vulnerable people is indefensible.**

The Chancellor's Budget Statement made optimistic reading to some extent, at least until the detail started to emerge. The Chancellor's announcement that he expected supplier contributions to assist vulnerable customers to increase from £50 million to £150 million is disappointing given the scale of the fuel poverty problem. **Measures to reduce the disparity between prepayment charges and those associated with other payment methods is also welcome but unlikely to make a significant difference.**

This issue of the UK Fuel Poverty Monitor has a dual purpose – to present the current situation in the constituent countries of the United Kingdom and to consider how fuel poverty policy decisions resting with Westminster can be revised and strengthened to make energy affordable for vulnerable households.

However, responsibility for resolving fuel poverty is ultimately a devolved issue and a coherent strategy to achieve fuel poverty targets will require the full commitment of both Westminster and the administrations of Scotland, Wales and Northern Ireland.

Recommendations

Household Incomes

The Winter Fuel Payment should be extended to those non-pensioner households where particularly low household income combines with vulnerability. This is certainly the case for households eligible for Cold Weather Payments¹ and the overall cost would be modest. The Government estimates that extending the payment to these households would add a further £320 million to current annual expenditure of £2 billion.

The Government should consider the introduction of some form of weighting within the Winter Fuel Payment to reflect the climatic conditions encountered in colder parts of the United Kingdom.

Funding for Fuel Poverty Programmes

The most equitable way of funding fuel poverty programmes is through direct taxation – all other methods are to some extent regressive. This is true of funding for the CERT programme and of tariff cross-subsidies. The Government's unwillingness to commit to additional public expenditure, despite [in England at least] a clear statutory obligation to meet fuel poverty targets is worrying. However another source of funding is at hand.

In his maiden Budget Statement in 1997², in which VAT on domestic fuel was reduced from 8.5% to 5%, Gordon Brown insisted that his own preference would be to remove VAT altogether but that EU legislation prevented this. Amid all the discussion about a windfall tax on the energy industry there was little mention of the revenue accruing to the Treasury as a result of higher energy prices. With average annual domestic energy bills at £1,000 or more, HM Treasury benefits from VAT receipts of some £1.25 billion per year. Investment in energy efficiency has not increased in proportion to the increase in VAT receipts from higher energy prices.

VAT receipts from domestic fuel should be devoted in whole or in part to making up the shortfall in funding for energy efficiency and other fuel poverty programmes.

Energy Prices – Prepayment

Budget 2008 also stated the Government's belated commitment to investigate the disparity between charges for prepayment and other payment methods and the extent to which these could not be justified. It was suggested that if sufficient progress had not been made by next winter the Secretary of State would use his powers to reduce differentials. The Government suggests that existing differentials penalise prepayment customers by £55 (standard credit) and £144 (direct debit) per year. Since prepayment is clearly related in most cases to disadvantage this timescale is unacceptable; work to

¹ Cold Weather Payments are made automatically to eligible households where a period of exceptionally low temperatures has occurred or been forecast to occur. Eligible households are those in receipt of Pension Credit or Income Support or Income-based Jobseeker's Allowance provided the benefit includes a premium related to disability or the family includes a child aged under 5. Payment is triggered by a 7-day period of exceptionally low temperatures.

² House of Commons Hansard, July 2, 1997, Col. 312

equalise prepayment tariffs must be expedited to avoid another winter of unaffordable charges to those who can least afford to pay.

Energy Prices – Social Tariffs

The Government is anxious to build on existing voluntary initiatives by suppliers and is scrutinising current offerings to determine 'proportionality' i.e. equivalence in terms of customers assisted and resources devoted to this assistance. Clearly there will need to be a significant degree of prescription and guidance to achieve the goal of equivalence. Government will have to set minimum standards linked to suppliers' best current offers in the competitive market and determine which households should be assisted. Social policy objectives such as fuel poverty eradication cannot be left to the discretion of commercial organisations and their perception of what constitutes equity.

The current Energy Bill presents an opportunity to introduce a structured framework setting out the form that a social tariff should take and specifying those households to whom it should apply. In the past, NEA has suggested that access to a social tariff could be linked to receipt of social security benefits paid on the basis of low income and vulnerability. This would also possess the virtue of enabling the Department for Work and Pensions to readily identify these households to inform them of their entitlement to access the social tariff and any associated assistance such as an energy efficiency package. In this way households could be advised of their entitlement without any breach of Data Protection legislation – an issue if information were to be passed directly to energy suppliers.

Co-ordinating and Maximising Reserved and Devolved Powers

Given the different strands of responsibility for the factors affecting fuel poverty, it is increasingly essential that policy works in a co-ordinated manner in order to find and implement the most effective approach to eradicating fuel poverty. There are also possibilities to share best practice and constructive input from the four countries of the United Kingdom. It is recommended that a cross-Government working group on fuel poverty be convened following the model of the Inter-Ministerial Group on Fuel Poverty that was formed at the launch of the UK Fuel Poverty Strategy in 2001.

Hard to Treat Housing

It is evident that the issue of hard to treat housing must be addressed with some degree of urgency. Much of the housing stock is not amenable to improvement through the most cost-effective conventional energy efficiency measures and this is a particularly serious circumstance given the frequent occurrence of hard to treat housing and lack of access to mains gas supply. As yet no grant programme has attempted to remedy this situation, leaving significant numbers of households in the worst possible circumstances and without any real source of assistance.

Fuel Poverty - England

Introduction

The Warm Homes and Energy Conservation Act 2000, as it applies to England, requires the Secretary of State to publish and implement a strategy for reducing fuel poverty and to set targets to achieve fuel poverty objectives. The Act allows a maximum period of fifteen years from the date of publication of the strategy in which to achieve the objective of: 'ensuring that as far as reasonably practicable persons in England or Wales do not live in fuel poverty'. The UK Fuel Poverty Strategy was published in November 2001 thereby committing the Westminster Government to the eradication of fuel poverty in England by November 2016. In line with the requirements of the Warm Homes and Energy Conservation Act the strategy document adopted an interim target seeking to end fuel poverty for vulnerable households by 2010.



The Scale of Fuel Poverty

At the point when the UK Fuel Poverty Strategy was published the targets seemed eminently achievable. Competitive energy markets were providing cheaper gas and electricity for millions of households (albeit vulnerable households were generally less enthusiastic about switching supplier); household incomes for the poorest pensioners and families with children were rising as a result of the Minimum Income Guarantee and Tax Credits; and modest but real improvements were being made to the energy efficiency of the housing stock.

Using 1996 as the baseline, the Government was able to point to rapid and consistent decline in fuel poverty and could assume that, whilst challenging, fuel poverty targets could be met. However any expectation of relentless progress received a major setback in 2004 as the first impact of a series of energy prices began to take effect.

The Impact of Energy Prices on Fuel Poverty

Post-2004 the fuel poverty landscape began to change dramatically whilst the time lag in officially published data masked some of the bad news. As late as May 2006³ the Government could observe: 'The fuel poverty figures for 2004 are presented here, and the indications are that the good progress made to date has not yet begun to reverse, despite the fact that energy prices in 2004 were greater than in 2003.'

This misguided optimism was revised in the following year when the Energy White Paper⁴ was published. The White Paper featured a graph which acknowledged that fuel poverty targets for England are unlikely to be met. The 2010 target seems unattainable and, without major innovative programmes, the 2016 target will also be beyond reach. On the basis of intermediate increases in future energy prices the Department for Trade and

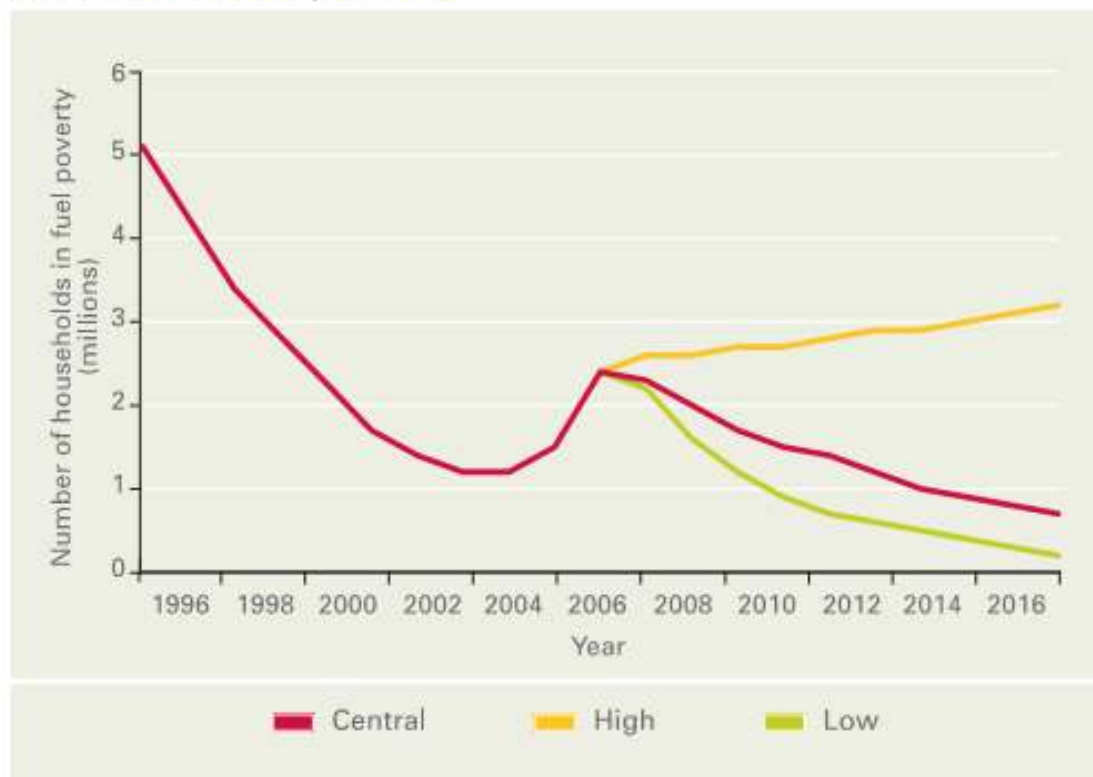
³ The UK Fuel Poverty Strategy 4th Annual Progress Report 2006, DTI and Defra, May 2006.

⁴ Meeting the Energy Challenge, DTI, May 2007.

Industry (now Business, Enterprise and Regulatory Reform) estimated that fuel poverty would continue to affect 1.2 million households in England by 2010 and 700,000 households by 2016.

The high energy price scenario was even worse, suggesting that there could be 2.7 million fuel-poor households in England by 2010 and that this figure could rise to 3.2 million by 2016. Allied to the prevailing view that the era of cheap energy was over it seems likely that falling energy prices will not play a major role in fuel poverty reduction in the future. The graph below from the Energy White Paper illustrates the possible fuel poverty scenarios.

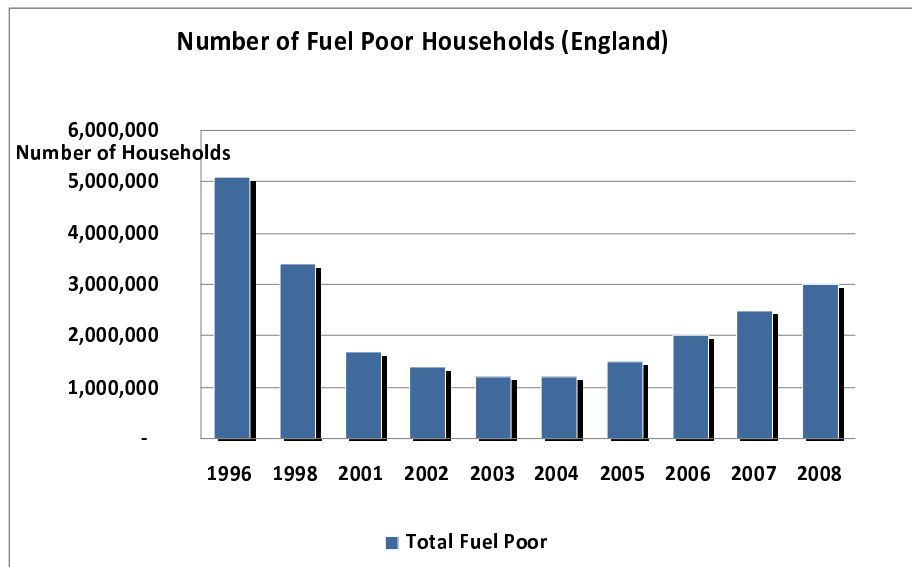
FIGURE 2.1.1 HISTORIC AND PROJECTED NUMBERS OF HOUSEHOLDS IN FUEL POVERTY IN ENGLAND, 1996-2016



Source: DTI, 2007

- Positions in 2005 and 2006 are based on the modelling of the impact of income, energy prices movements and energy efficiency measures on the number of vulnerable households in fuel poverty.
- Positions from 2007 to 2016 are based on modelling and show central, low and high price scenarios. These are based on the fossil-fuel price assumptions published at the same time as the White Paper.

In fact it appears that the worst scenario envisaged by Government may have been optimistic. NEA estimates that, between January 2003 and the present, gas and electricity prices have increased by 94% and 70% respectively. The current impact on fuel poverty in England is illustrated in the chart below.



By spring 2008 we have reached a figure of 3 million fuel-poor households in England – almost identical to the incidence of fuel poverty in 1999.⁵

Current Fuel Poverty Policies – Energy Efficiency

The Warm Homes and Energy Conservation Act specifically refers to energy efficiency improvements as a key policy in addressing fuel poverty. NEA endorses the view that heating and insulation improvements are the most rational and sustainable means to ensure affordable warmth – a view shared by all fuel poverty campaigners. Despite this consensus, the Government has been at best ambivalent in supporting energy efficiency programmes.

Warm Front

Over the period 2005-2008 funding for Warm Front totalled £860 million, peaking in the financial year 2007-2008 when the scheme budget reached £350 million. Last year's Comprehensive Spending Review fixed programme funding at £800 million for the 2008-2011 period representing an average yearly spend of some £267 million which equates to a 23% reduction on 2007-2008 expenditure and 50,000 fewer installations per year.

Warm Front is an excellent programme but there are problems that must be addressed. The most pressing of these issues is the inadequacy of the maximum grant (£2,700 or £4,000 where an oil-fired heating system is installed) to fund a comprehensive package of heating and insulation measures.

In total some 17% of all Warm Front grants require a client contribution⁶ and the figure for those receiving a grant for heating installation is more than double this. NEA understands that the latest figures suggest that, where heating improvements are made, some 60%-70% of works require a client contribution. In addition, there is little

⁵ Fuel poverty in England in 1999 and 2000, DTI and Defra, January 2002.

⁶ House of Commons Hansard, January 14 2008, Col. 859

information on the number of households who are forced to decline assistance because they cannot afford to contribute to the cost.

Carbon Emissions Reduction Target (CERT)

The Government argues that funding for the Priority Group within CERT will increase significantly between 2008-2011. This is certainly true in financial terms since funding should reach around £500 million per year. However, even in this context Government has reduced the proportion of energy savings to be achieved for the Priority Group from 50% to 40% whilst increasing the size of the Priority Group.

Decent Homes Standard

NEA has frequently criticised the Thermal Comfort element of the Decent Homes Standard as hopelessly inadequate, in terms of the heating and insulation specifications, to provide affordable warmth for social tenants. To some extent this criticism has been countered by the fact that many social sector landlords have ignored the Government specifications and voluntarily adopted much higher standards⁷. Nevertheless, even at the lower standard, the target to provide Decent Homes for all social sector tenants by 2010 will not be met.

Hard to Treat Housing in England

The UK Fuel Poverty Monitor generally seeks to identify differing prevailing circumstances in the four countries of the United Kingdom to explain variations in the type and scale of fuel poverty. Identifiable factors may be high energy prices in Northern Ireland or low household incomes in Wales or the traditional construction of dwellings prevalent in Scotland.

However this approach is overly simplistic. In fuel poverty terms England is not a homogeneous country. There are major regional differences that reflect all of the areas referred to above and England also faces a major problem in terms of the nature and distribution of its housing stock. The key difficulty relating to the housing stock is the high proportion that is not easily amenable to conventional fuel poverty solutions i.e. cost-effective insulation and the most economic and efficient heating systems.

The table below illustrates some of the difficulties involved in improving the housing stock in England and the need for energy efficiency programmes to recognise and address these problems through the introduction of innovative measures to grant programmes such as Warm Front and other funding sources such as the Carbon Emissions Reduction Target (CERT).

⁷ Implementing Decent Homes in the Social Sector, DCLG, February 2007.

Characteristics of the hard to treat stock in England (number and %)⁸			
	Number of dwellings	% of dwellings	% of hard to treat stock
Solid wall	6,599,000	31%	72%
Off gas network	2,769,000	13%	30%
No loft space	1,475,000	7%	16%
High rise flat	326,000	2%	4%
All hard to treat	9,206,000	43%	
All households	21,549,000	100%	

Note: Many properties share more than one hard to treat factor. This table shows the mutually exclusive combinations.

⁸ A study of Hard to Treat Homes using the English House Condition Survey, Defra, BRE and EST, 2008.

Fuel Poverty – Scotland

Introduction

The eradication of fuel poverty is a priority within the Housing (Scotland) Act 2001. The Scottish Fuel Poverty Statement was published by the Scottish Government in 2002 under paragraph 88 of the Act. The Statement sets out Scotland's overall objective for eradicating 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".



In 2002 the Scottish House Condition Survey (SHCS) estimated that there were 286,000 fuel-poor households in Scotland⁹. Energy Action Scotland estimates that, since then, those numbers have soared to an estimated 700,000 – almost 1 in 3 – fuel-poor households in Scotland¹⁰ in 2007.

Energy Prices

From 2001 to 2007 average annual domestic electricity bills in Scotland rose by 50%¹¹. During the same period average annual domestic gas bills in Scotland rose by 85%¹². These price rises are likely to hit fuel-poor households the hardest, meaning that many people will have had to make difficult choices such as heating their home or feeding their family, and will face worry and stress over unaffordable fuel bills.

The *Fuel Poverty in Scotland – SHCS 2002 Follow-up Report* published in 2004 estimated that for every 5% increase in fuel prices (all other factors being equal), 30,000 more households would enter fuel poverty. More recent statistics published by the SHCS team in February 2008 state that for every 5% rise in fuel prices, 40,000 more households become fuel poor¹³.

It is clear then that the ongoing increase in fuel-poor households is due in large part, though not exclusively, to increased fuel prices. To compound the problem, it is often those who are least able to pay who use the most expensive payment method – prepayment meters – whilst those who are best able to pay are often on the cheaper rates offered via Direct Debit and online payments.

According to the *Fuel Poverty in Scotland – SHCS 2002 Follow-up Report*, the best predictors of fuel poverty are income band, tenure and extent of missing central heating. It also states that all households with an average weekly income of less than £100 have a high probability of being fuel poor regardless of other factors.

⁹ 'SHCS 2002 – Fuel Poverty in Scotland report' [April 2004], <http://www.scotland.gov.uk/Resource/Doc/933/0039911.pdf>

¹⁰ Calculated using the 'SHCS 2002 – Fuel Poverty in Scotland report'

¹¹ Calculated using 'Average annual domestic electricity bills for UK countries', BERR, <http://stats.berr.gov.uk/energystats/gep222.xls>

¹² Calculated using 'Average annual domestic gas bills for UK countries', BERR, <http://stats.berr.gov.uk/energystats/gep232.xls>

¹³ Calculated using 'Estimate of fuel poor households in Scotland' table, SHCS, <http://www.scotland.gov.uk/Topics/Statistics/SHCS/fuelpoorinScotland/Q/EditMode/on/ForceUpdate/on>

Other Factors in Scotland

While income and energy prices are matters reserved to Westminster, energy efficiency of the home is devolved to the Scottish Parliament.

Scotland faces a number of particular problems. In 2007 average earnings in Scotland were calculated to be almost 6% lower than those in England¹⁴. Due to the difference in climate, Scotland has a much longer heating season and a family in the north of Scotland can spend 68% more on fuel use than the equivalent in the south of England¹⁵, due mainly to the heating season differential.

Scotland also has a large proportion of properties that are not connected to the gas grid and which are likely to remain so (some 33%). Research undertaken by the Fuel Poverty Advisory Group for England shows the most effective measure for removing a household from fuel poverty is to fit a gas central heating system. This has been confirmed by research on the Scottish Government's Central Heating Programme¹⁶, which found that the installation of measures under the Central Heating Programme removed 76.2% of fuel-poor households surveyed from fuel poverty. Many fuel-poor households are in rural areas, where the cost of providing a gas supply would be uneconomic. These areas are then forced to use more expensive fuels to heat and provide power to their homes.

Scottish housing differs significantly from that found in England. While both countries have a similar proportion of properties with cavity walls (almost 70% in England¹⁷ and 74%¹⁸ in Scotland), the cavities in Scotland are 50% bigger than those in England and therefore cost significantly more to fill with insulation. In addition, Scotland has 10% of dwellings classified as 'non-traditional', split between concrete, timber and metal-framed housing¹⁹. All these types of property are 'hard-to-treat' in energy efficiency terms. Around 25% of all homes in Scotland do not have a loft, due to the large number of flats and tenement properties that are prevalent in urban areas²⁰. It can be much more expensive to improve the energy efficiency of these hard-to-treat property types and bring them up to an adequate level of thermal comfort.

Fuel Poverty Programmes and Legislative Drivers in Scotland

Published in 2004, the Scottish Housing Quality Standard (SHQS) requires housing to meet minimum standards such as achieving adequate levels of energy efficiency; being free from serious disrepair and dampness; and being above the 'tolerable standard' – which is the minimum standard a house must meet. Local authorities, housing associations and other registered social landlords have until 2015 to meet the SHQS. The

¹⁴ Calculated using 'Data: Tables accompanying Patterns of pay: Annual Survey of Hours and Earnings results 1997 to 2007', Office for National Statistics.

¹⁵ 'Fuel Expenditure on Heating – Climactic Variation' [1995], Digest of United Kingdom Energy Statistics, DTI

¹⁶ 'Assessing the Impact of the Central Heating Programme on Tackling Fuel Poverty: The First Three Years of the Programme 2001-2004 Final Report', Bill Sheldrick and David Hepburn, Alembic Research

¹⁷ 'English House Condition Survey 2005: Annual Report'

¹⁸ 'Scottish House Condition Survey 2002'

¹⁹ 'Scottish House Condition Survey 2002'

²⁰ 'Scottish House Condition Survey 2002'

SHQS Progress Report 2008 indicates that over 30,000 dwellings were brought up to the Standard in 2006/07 and progress towards the SHQS is being made across all criteria.

The Housing (Scotland) Act 2001 requires local authorities to produce Local Housing Strategies. These strategies must set out the authority's policy for exercising its functions in such a way that "ensures, so far as reasonably practicable, that persons do not live in fuel poverty". Local authorities will be required to provide their next Local Housing Strategy in 2009 and the local authority's strategy for the eradication of fuel poverty should be fully integrated into this new local housing strategy. There will therefore be no requirement for a separate Fuel Poverty Strategy. Guidance on this is expected in 2008.

The Scottish Government has two energy efficiency grant programmes aimed at eradicating fuel poverty: the Warm Deal and Central Heating Programme.

Warm Deal

This provides a grant of up to £500 for energy efficiency measures to householders in receipt of certain income-related benefits. Householders aged 60 or over and who are not in receipt of income-related benefits can get a smaller grant of up to £125.

Local authorities and housing associations receive the grant money directly to deliver the measures to tenants themselves.

The package of measures includes:

- Cavity wall insulation
- Loft insulation
- Hot and cold tank and pipe insulation
- Draughtproofing
- Energy advice and energy saving light bulbs

Central Heating Programme

When launched in 2001, this programme was available to all private sector households aged 60 or over, without a central heating system or with a heating system which was irreparably broken down. The programme was extended in 2004 to include householders aged 80 or over who had partial or inefficient central heating systems. In addition, the programme was extended further in January 2007 to include homeowners aged between 60 and 79 and in receipt of the guarantee element of Pension Credit; this group was eligible for either a full system or a system upgrade if their central heating is partial or inefficient.

In May 2008, this was revised again. Those who now qualify are:

- pensioner households who have never had a central heating system (linked heating to two or more rooms)
- pensioner households in receipt of the Guarantee Element of Pension Credit who have a system which is broken beyond repair
- households over 80 years who have a system which is broken beyond repair.

A direct grant was made to local authorities and housing associations to deliver the Central Heating Programme to tenants, regardless of age or benefits receipt, and this was completed in early 2007.

The package of measures includes:

- A central heating system (mains gas, electric, solid fuel and oil)
- Loft, tank and pipe insulation, cavity wall insulation and draughtproofing where appropriate
- Carbon monoxide detector, mains smoke detector and cold alarm
- Benefits entitlement check

Alongside the Central Heating Programme, the Scottish Government launched a two-year pilot study in 2006 to explore the potential of renewable energy technology options for heating in a variety of domestic settings across Scotland with a view to considering including these technologies in the main Central Heating Programme at a later date. The final report from this pilot study is expected to be published in summer 2008.

The Scottish Government is in the process of reviewing its action on fuel poverty. In May, it reformed the Scottish Fuel Poverty Forum with, for the first time, an independent Chair. The Forum is tasked with advising the Scottish Government on tackling fuel poverty and developing proposals for the reform of fuel poverty programmes within existing budgets. It must report by the end of the summer. At the same time, the Scottish Government published the findings of its internal review on fuel poverty.

CERT (Carbon Emissions Reduction Target) has taken over from the Energy Efficiency Commitment (EEC) and will run from 2008-11. CERT sets energy saving targets for energy suppliers to be achieved by practical measures such as cavity wall and loft insulation and energy efficient boilers, appliances and light bulbs. CERT has the same underlying framework and purpose as the EEC mechanism but, in line with the provisions of the Climate Change and Sustainable Energy Act 2006, micro-generation and schemes to affect consumer behaviour are now permitted.

The Scottish Government is setting up a new Scottish CERT Strategy Steering Group, to be chaired by the Minister for Communities. Its purpose is "to ensure that the Government is facilitating and complementing the action that energy companies are taking to meet their obligations, including reaching the fuel poor".

The Way Forward

Whilst current Scottish fuel poverty programmes have been successful in many ways, they now need to be revised if they are to continue working effectively and if they are to assist in achieving the Scottish Government's target of eradicating fuel poverty in Scotland by 2016.

Eligibility for the Central Heating Programme should be extended to include families with a child with a disability and other vulnerable groups such as low-income single-parent

families and the chronically sick. A low cost social insurance and maintenance programme must be put in place for those who have been given a free central heating system to provide an emergency 24 hour call-out service, an annual maintenance check and a new boiler at the end of the appliance's useful life. The Central Heating Programme also needs to include micro-renewables in order to tackle those hard-to-treat properties which are not connected to the gas network and are of non-traditional housing type. Finally, the Warm Deal should be merged with the Central Heating Programme to become one single grant, *e.g.* the Scottish Warm Homes Grant, in order to give a single point of access for the public. One call would then determine the client's circumstances and direct them to the bundle of services appropriate to their home and circumstances.

It is estimated that the first round of across-the-board energy price increases in January 2008 could have brought the UK Treasury an additional £175 million through VAT. This extra VAT revenue, and that from subsequent price rises, should be used exclusively to tackle fuel poverty in the four UK countries.

Eligibility for the Winter Fuel Payment should be extended to include other vulnerable groups. There should also be a regional weighting for the Winter Fuel Payment to reflect the longer heating season and consequent higher heating costs for households in Scotland.

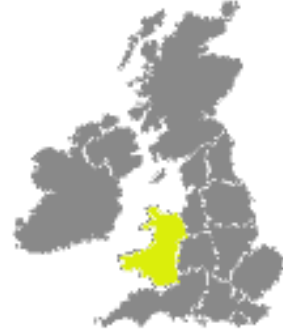
Prepayment meter tariffs offered by power suppliers should not be set at a higher rate than other tariffs; the fuel poor, vulnerable and those on low incomes should not be penalised for not having access to or the ability to use cheaper payment methods such as Direct Debit.

It is important to ensure that Scotland is receiving the appropriate proportion of CERT funding. It is also necessary to ensure that effective co-operation between CERT and the current Scottish Government fuel poverty schemes (*i.e.* the Warm Deal and Central Heating Programme) is established in order to maximise the benefit from available funding and simplify the process.

Fuel Poverty – Wales

Introduction

The Warm Homes and Energy Conservation Act 2000 required the Welsh Assembly Government to publish a strategy setting out proposals to end fuel poverty in Wales within a fifteen-year period. The Fuel Poverty Commitment for Wales adopts a target that, as far as is reasonably practicable, no household in Wales should be living in fuel poverty by 2018 with interim targets to eradicate fuel poverty amongst vulnerable groups by 2010 and amongst social housing by 2012.



The Scale of Fuel Poverty

Fuel poverty in Wales had been declining during the end of the last century and the early part of this decade. Recently published figures from the Welsh Assembly Government's Living in Wales survey showed that around 130,000 households in Wales were in fuel poverty in 2004. Detailed analysis, commissioned by the Assembly Government, of the impact of recent fuel price rises showed that by 2006 the number of households in Wales experiencing fuel poverty had increased to some 240,000. Of these 240,000 households 209,000 are classed as "vulnerable" households. The report also highlighted that Mid-Wales and North Wales have the highest incidences of fuel-poor households.

The *Living in Wales* report estimates that for every 10% rise in energy prices, an additional 48,000 households will be forced into fuel poverty. NEA Cymru is concerned that fuel poverty figures are likely to increase in coming months as price increases are implemented and further price rises may be imminent. In 2007 the average annual fuel bill for a Welsh household was £1,000. Electricity prices are a particular concern: according to energywatch, consumers in Wales pay roughly 10% more than the GB average for electricity. This inequity impacts hardest on those least able to afford it because it tends to be the poorest who rely on electricity to heat their homes: 40% of households who heat their homes solely with electricity are living in fuel poverty.

Particular Issues in Wales

Rural fuel poverty

Levels of fuel poverty are particularly high in the rural middle and north of Wales. In part this is because 20% of all households in Wales do not currently have access to mains gas, the cheapest fuel for home heating, a particular problem in more isolated rural areas where connection to the mains gas network is unlikely to be viable. This disadvantage can be exacerbated by the fact that many of these households live in older "hard-to-treat" houses, with solid walls that are difficult to insulate economically. Occupants of dwellings built pre-1964 account for nearly 85% of the fuel poor and the older a dwelling is, the more likely it is that a household living in it will be fuel poor. The fact that rural poverty is dispersed rather than concentrated also creates problems for

service delivery, limiting the extent to which energy efficiency programmes reach rural communities.

Low Household Income

The Joseph Rowntree Foundation Monitoring Poverty and Social Inclusion Report 2007²¹ figures for Wales indicate:

- The poverty line of 60% of average income was £108 per week for a single adult with no dependent children; £186 per week for a couple with no dependent children; £182 per week for a single adult with two children under the age of 14; and £260 per week for a couple with two children under the age of 14. These sums of money are measured after income tax, council tax and housing costs have been deducted, where housing costs include rents, mortgage interest (but not the repayment of principal), buildings insurance and water charges. They therefore represent what the household has available to spend on everything else it needs, from food and heating to travel and entertainment.
- Around 600,000 people in Wales live in households below this low-income threshold. This is around a fifth (22%) of the population.

Inequitable energy costs

Around 377,000 households in Wales use a prepayment meter (PPM) which allows them to pay as they go feeding credit onto a meter as they choose. Whilst not all PPM customers are on low incomes or fuel poor, it is far more likely they will be on a fixed income or dealing with an energy debt.

The tables below set out the main payment methods used in Wales in 2007 and the extent of indebtedness to energy suppliers.²²

Fuel payment methods – Wales 2007							
	Monthly direct debit	Prepayment	Quarterly cash/cheque	Fuel Direct	Budgeting payment schemes	Other	Total
Electricity	609,813	221,966	454,434	894	29,254	39,997	1,356,628
	(45%)	(16%)	(33%)	0%	2%	3%	100%
Gas	488,182	139,658	359,805	1,439	36,835	36,536	1,062,455
	(46%)	(13%)	34%	(0%)	(3%)	(3%)	100%

As well as the inequities between payment types, NEA Cymru is also concerned about geographical inequities that impact on people in Wales. Consumers in Wales, particularly in the south of Wales, pay more for their electricity than the GB average.

Key Priorities for Action

NEA Cymru recognises the work that has been carried out to date to tackle fuel poverty in Wales. The Home Energy Efficiency Scheme has made a real difference to the lives of

²¹ <http://www.jrf.org.uk/knowledge/findings/socialpolicy/2096.asp>

²² Warm Homes Briefing. (data from 2007 Ofgem Social Obligations Report), NEA, 2007

tens of thousands of people across Wales. The Welsh Assembly Government has also funded NEA Cymru to work with local authorities and local organisations to develop Affordable Warmth Action Plans for each local authority area in Wales; this has demonstrated that across Wales there is a huge amount of interest in and clear dedication to eradicating fuel poverty. In November 2007, Jane Davidson, Environment, Housing and Sustainability Minister announced she would review the fuel poverty strategy for Wales as part of the Assembly's Energy Efficiency Savings Plan. She also agreed to appoint an independent Fuel Poverty Advisory Group Chair.

Whilst welcoming and endorsing the efforts that have been made to tackle fuel poverty, and the Minister's commitment to addressing the agenda, NEA Cymru believes that there needs to be a greater impetus; urgent action is needed now. The Fuel Poverty Commitment for Wales pledges to eradicate fuel poverty for vulnerable households, as far as is reasonably practicable, by 2010. It is evident that the Welsh Assembly Government will fail to meet this target unless it introduces significant new resources and measures to remedy this situation. In particular, the priority areas must be:

- improving domestic energy efficiency by targeting HEES
- increasing take-up of benefit entitlements
- targeting hard to treat homes
- developing joined-up policies
- developing a clear framework for accountability and delivery.

Improving Domestic Energy Efficiency by Targeting HEES

The Home Energy Efficiency Scheme (HEES) is the Welsh Assembly Government's main vehicle for tackling fuel poverty by increasing the energy efficiency of dwellings. HEES provides partial grants (£500) aimed at the over 60s who do not otherwise qualify for HEES or HEES Plus; HEES (£2,000) aimed at families with children under 16; and HEES Plus (£3,600 to £5,000) aimed at lone parent families with children under 16, people who are 60 or over and those who are disabled or chronically sick. Householders who are over 80 automatically qualify for HEES Plus. In 2006-2007 some 14,000 households in Wales were assisted through the programme.

HEES has undoubtedly delivered significant benefits to thousands of people in Wales and addressed some aspects of fuel poverty. However, we are concerned that HEES may not be reaching some of those in the greatest need. We are concerned that the Living in Wales data showed that just 54 per cent of fuel-poor households are eligible for HEES. Further, a review of HEES carried out by the Welsh Assembly Government in 2004 concluded that:

- Of the 24,124 households helped by HEES between March 2001 and January 2004, only 29% were considered to be fuel poor before HEES intervention
- Only half of these were removed from fuel poverty after the intervention of HEES.

It is essential that the scheme should focus more on helping the most vulnerable groups. In particular we would like to see the scheme:

- actively reduce waiting times and prioritise vulnerable groups on the basis of health conditions
- publicise and promote HEES take up amongst the most vulnerable and excluded; which means spending time and effort working with community and outreach workers who have relationships with vulnerable groups and communities;
- work more closely with CERT providers to maximise the funding available to fuel poor households in Wales; and
- increase resources and target them at the fuel poor.

Increasing Take-up of Benefit Entitlement

NEA Cymru is also conscious that HEES alone is not the answer to fuel poverty. Assembly Government figures show that even if every vulnerable household were provided with everything that HEES currently offers, plus additional energy efficiency measures (double glazing and solid wall insulation) there would still be between 12,000 and 135,000 vulnerable households in fuel poverty in 2010. It is clear therefore that meeting the targets will require a strategic approach that addresses the wider problems, including low income.

The Welsh Assembly recently announced £3m of additional funding to help local authorities widen the focus of their take-up campaigns, targeting the elderly and couples with children. The Assembly has also announced that a working group will be formed to research the obstacles people face in claiming benefits and it is important this group takes into account the obstacles households living in fuel poverty face. For example, anecdotal evidence suggests that traditions of self-sufficiency in rural areas – which have a high incidence of fuel poverty – lead to reluctance to claim welfare benefits and other forms of assistance, although this can be partially attributed to the absence or limitations of sources of advice and information services.

Targeting Hard to Treat Homes

The issue of hard to treat housing is a major factor in addressing fuel poverty in Wales and for these types of property, typically off the mains gas network and with solid walls that are difficult to insulate economically, alternative technologies can be a viable solution. The clear challenge with renewables as a solution to fuel poverty is resources: renewables are relatively expensive and, without capital investment grants, people on low incomes will not be able to afford the technology. Some micro-generation is funded through the HEES Scheme. However, the Home Energy Efficiency Scheme is already over-subscribed and struggling to fund basic insulation and heating measures. This pressure will clearly increase if the scheme is to increase funding for the provision of renewable technology. It is therefore essential that any expansion of HEES to increase provision of renewables is fully funded so that resources are not directed away from fuel-poor households who still need the basic energy efficiency measures.

Developing Joined-up Policies

Fuel poverty cuts across portfolios and departments. NEA Cymru believes more needs to be done to help develop a comprehensive joined-up approach and would like to see the

Welsh Assembly Government develop a joined up task force. In particular there are a number of current programmes that can and do impact on fuel poverty and we would like to see these connections being made both at a political and operational level, for example:

- ***Work on affordable housing should focus on making running a home affordable***, through, for example, improved energy efficiency, this includes placing obligations on private landlords to improve the energy efficiency of the properties they let.
- ***Policies to tackle child poverty should be linked to measures to tackle fuel poverty***, which has a long-term impact on children's health, development and attitude, negatively impacting on their overall life chances. This involves ensuring the Assembly's Child Poverty Task Force and Expert Group considers fuel poverty and ensures action on fuel poverty is integrated as part of the child poverty milestones and targets.
- ***Policies to promote public health should be linked to action to ensure affordable warmth for all***. Fuel Poverty can have severe impacts on people's health and well-being, especially those with existing medical conditions. This involves promoting action amongst LHBs and ensuring that area based Social Care Health and Wellbeing strategies are adequately targeting fuel poverty.
- ***Communities Next should explicitly support action on fuel poverty***. In particular, to build the capacity of communities and individuals to access the support that is available to help maintain a warm home. The 2003 Fuel Poverty Commitment stated Communities First was the main programme to alleviate fuel poverty however as the programme moves into Communities Next there is little evidence of the scheme's success. We would like to see clear outcomes on fuel poverty in Communities First areas and the Welsh Assembly Government to consider area based approaches as a viable option for these areas.

Developing a clear framework for accountability and delivery

In November 2007 the Minister with responsibility for fuel poverty announced a review of the Welsh Fuel Poverty Commitment. We hope this will lead to the development of a national task force and:

- ***A national affordable warmth action plan to provide a coherent link between local action on affordable warmth including the work of Local Authorities and action taken at a national level***
- ***A national performance framework that sets out how progress in tackling fuel poverty is to be measured and reported at a national and local level***

Fuel Poverty – Northern Ireland

Introduction

Ending Fuel Poverty: A Strategy for Northern Ireland was developed and launched by the Department for Social Development (DSD) in Nov 2004. It set targets, subject to the availability of resources, to eradicate fuel poverty in vulnerable households by 2010 and in all households by 2016. The strategy also established an inter-departmental group to co-ordinate Government efforts across all departments and a Fuel Poverty Advisory Group (FPAG) involving health, fuel suppliers and older people's representatives to take a strategic view of policies and initiatives required to eradicate fuel poverty. The FPAG also has oversight of the Strategy, assessing effectiveness and the resources required.



The strategy defined fuel poverty as: *"the situation in which a household would have to spend more than 10% of its income on fuel to maintain an acceptable level of temperature throughout the home."*

Three key factors influence the ability of a household to pay for that energy namely low income, energy inefficiency and energy costs.

Improving Energy Efficiency

The Warm Homes Scheme was introduced by the DSD in 2001 as a replacement for the Domestic Energy Efficiency Scheme (DEES). It became operational in July 2001 and aimed to build on the previous scheme by broadening the range of assistance offered, and targeting those households most vulnerable to cold-related ill health - older people, families with children and long-term sick and disabled householders. At this time the cost of fuel poverty to the NHS was estimated to be in the region of £30 million and it was thought to be a contributory factor in more than 2,000 cold-related deaths each year.

The Warm Homes Scheme has continued to be the main fuel poverty programme in Northern Ireland and is highly regarded. As a consequence, the budget for the Warm Homes Scheme increased significantly from £3 million annually in 2001 to some £20million in 2007. Alongside this, the Northern Ireland Housing Executive (NIHE) embarked on a Heating Replacement Programme which also cost in the region of £20 million in 2007.

There are two tiers to the government scheme, namely Warm Homes and Warm Homes Plus. Warm Homes provides a grant of up to £850 for eligible households and includes cavity wall insulation, foil radiator panels (only in properties with solid walls), draughtproofing and loft insulation. Beneficiaries of the scheme must be in receipt of a qualifying benefit related to low income or to disability. Warm Homes Plus provides a grant of up to £4,300 for heating measures including repairs to existing systems and the

installation of, or conversion to, oil or natural gas central heating along with insulation measures. In order to qualify, the applicant or partner must be over 60 years of age and in receipt of either a means-tested benefit or a disability-related benefit.

The measurement of fuel poverty and progress in domestic energy efficiency is measured via Northern Ireland House Condition Surveys, which are normally carried out every five years with the last full survey in 2001. Survey data indicated that 33% of all households in Northern Ireland were in fuel poverty. An interim House Condition Survey (HCS) carried out in 2004 indicated that the incidence of fuel poverty had declined to 24% of households and that CO₂ emissions had fallen by 17.2%; a consequence of the substantial investment in reducing energy consumption through works to improve the physical fabric of dwellings in Northern Ireland.

The Impact of Rising Energy Prices

Despite this progress, the 2006 HCS indicated that the incidence of fuel poverty had increased from 24% (154,000 households) in 2004 to 34% (240,000 households) largely as a result of escalating fuel prices.

- Phoenix Natural Gas charges have increased by more than 83% (note firmus have fixed their prices until 2009)
- Electricity supplied by NIE has increased by 14%
- Heating oil has increased by 90%

With over 70% of households in Northern Ireland relying on oil for their domestic heating these increases have had a devastating effect. With little reason to believe that energy prices will fall in future years and every reason to believe that the opposite will be the case the need for ever increasing standards of energy efficiency is clear.

Further analysis of the 2006 HCS is pending but the 2004 Interim HCS provides a comprehensive view of the landscape of fuel poverty. As indicated above, excellent work has been carried out in the field of energy efficiency. The introduction of Pension Credit and Tax Credits has also had clear beneficial impact. Nevertheless much more is required. Areas of great concern were identified in the 2004 HCS (and no doubt will be reinforced in the 2006 HCS) such as the emergence of the working fuel-poor household (28% of such households) and the increase in rural fuel poor (40% of such households). This is particularly worrying since little provision is available to assist these households via the current Warm Homes Scheme.

The Minister for Social Development, Margaret Ritchie MLA, acknowledging the issue of the working fuel poor and taking advice from the Northern Ireland Fuel Poverty Advisory group, agreed to commission a piece of research to further explore this problem and make recommendations for action.

Energy Efficiency Funding

The evidence is compelling that with 34% of all households in Northern Ireland suffering from fuel poverty immediate action is required. Consequently, it is of further concern to NEA NI that there were early indications of a cut in the current Warm Homes budget,

possibly in the region of £10 million. The reduction may have been resisted in the current year with a reinstatement of £20 million for 2008/2009 but the next two years will also be crucial in ensuring that budgets increase rather than reduce in order to address the current fuel poverty crisis. There are also fears that the Housing Executive's Heating Replacement Scheme (HRS) will suffer severe cuts – an outcome that will damage both social and environmental objectives.

Currently some 4,000 applications received for the Warm Homes Plus Scheme are pending survey. A further 1,500 have been surveyed but sit on a waiting list due to lack of funds. Given the experience of previous years, a further 3,000 referrals are expected in year 2008/09, bringing about a waiting list of over 8,000 older people. Although the current £20 million funding is welcome, a significant uplift is required to tackle current waiting lists and perhaps changes to the scheme regulations will be required in order to prioritise the most vulnerable.

A recent report launched by DSD entitled 'Fuel Poverty, Climate and Mortality in Northern Ireland (1980 – 2006)' indicated that Warm Homes programmes could be contributing to a reduction of cold weather-related deaths in Northern Ireland - estimated previously to be over 2,000 a year. NEA Northern Ireland believes that it would be morally indefensible to cut funding from programmes that enhance health and well-being and save lives.

Economic and Environmental Considerations

These cuts would also have negative economic and environmental consequences. The installation network would be seriously affected with inevitable job losses and development of the natural gas network would be constrained, impacting on the target to reduce CO₂ emissions by 25% by 2025.

The gas supply business model adopted by firmus energy was predicated on the connection of industrial and commercial users; new build residential developments; and connections driven by the Northern Ireland Housing Executive's Heating Replacement programme (HRP). The gas expansion programme would also be driven by installations under the Warm Homes Scheme. firmus energy believe these potential cuts will threaten the economic feasibility of bringing natural gas along the North-West pipeline and South-North pipeline in Northern Ireland and could potentially result in a higher tariff price for current domestic users.

It is therefore essential to emphasise that the debate around fuel poverty is not just a social and moral issue; fuel poverty programmes make an important contribution to economic and employment objectives.

The Need for Integrated Policies

Launching the All-Ireland policy paper on fuel poverty and health, the Institute of Public Health (IPH) last month highlighted the fact that Northern Ireland had a more 'joined-up' approach than the Republic of Ireland but warned of future problems if the needs of the most vulnerable households were not addressed.

Fuel poverty programmes are designed to provide maximum benefit to vulnerable older households but should be expanded to consider other key groups in fuel poverty who require more assistance. There is a need to see fuel poverty in a wider context in its impact on the health, welfare and education chances of household members; the problem should not therefore simply sit with the Department for Social Development but should involve other key departments.

The recent presentations made by Professor Christine Liddell, to the Northern Ireland Fuel Poverty Advisory Group, and the Inter-Departmental Group, outlined the clear benefit impacts on health that can be gained from fuel poverty interventions. These presentations highlighted the fact that an intervention in a household with an asthmatic child under one year of age would result in the child being cured and therefore benefiting from numerous other health indicators in one year. These positive effects cite fewer days off school and better educational attainment. This presentation makes the resounding case for the extension of the current Warm Homes Plus Scheme to this key group.

Policies for affordable warmth must address energy efficiency but must also consider household income and energy prices. Wage levels in Northern Ireland are approximately 89% of the UK average and dependency on welfare benefits is high. The benefits system currently provides some assistance in the form of the Winter Fuel Payment but this support is limited to older households and excludes the many younger, but equally disadvantaged, households including those with young children.

The UK Treasury is accruing in the region of an additional £175 million through VAT brought about by the recent energy increases. NEA Northern Ireland call on Treasury to plough this extra VAT into fuel poverty programmes.

Budget 2008 contained some promising comment on the development of social tariffs and NEA Northern Ireland looks forward to debate and progress in this area. The 'Energy Crunch' has arrived and the fact that warm and healthy housing has become a much more expensive commodity will require innovative solutions and additional resources.

Fuel poverty is escalating in Northern Ireland and work is needed in the areas of both household incomes and energy prices. The possibility that the Executive's response might be to cut funding for domestic energy efficiency programmes is unthinkable and unacceptable.

Fuel Poverty – United Kingdom

Westminster and Fuel Poverty

Overall responsibility for fuel poverty progress is devolved to the Parliaments and Assemblies of the United Kingdom. This is despite the fact that energy efficiency is the only area of fuel poverty policy not reserved to Westminster. Consequently, powers to influence the other two key factors in fuel poverty – household income and energy prices remain with the Westminster Government.



Household Income

Since 2000 the Government has provided funding totalling some £20 billion on benefits and other programmes to address fuel poverty. However around three-quarters of this expenditure has been in the form of Winter Fuel Payments made to all households where a member is aged 60 or over. This represents the only Government funding intended to defray high energy charges but is poorly targeted and currently costs some £2 billion per year, almost three times the expenditure on energy efficiency measures for low-income households.

The Winter Fuel Payment has great potential as a fuel poverty instrument if it were to be directed towards those vulnerable non-pensioner households in greatest need. The Government insists that pensioner poverty has been greatly reduced and that older households are no more likely to be in poverty than the population as a whole²³, yet it persists in providing assistance to all older households to the detriment of hundreds of thousands of profoundly disadvantaged households.

Energy Prices

Since 2003 domestic gas and electricity prices have risen by 94% and 70% respectively. During this period energy suppliers have developed a range of social tariffs aimed at assisting some of their vulnerable customers. The level of support for these customers has been highly variable in terms of numbers of households helped and the level of support provided.

The 2008 Budget Statement contained the first definitive suggestion that the Government was prepared to act in this area rather than leaving it up to energy suppliers and their discretionary offerings.

The Chancellor alluded to this issue in his Budget Statement: *'The Government believes further action is now needed to help vulnerable groups deal with rising energy prices. The Government welcomes the steps the energy companies have already taken to help vulnerable households cope with higher prices. There is common agreement on the need to do more. Energy companies currently spend around £50 million a year on social tariffs; the Government would like to see that figure rising over the period ahead to at*

²³ Budget Report 2008 [para 4.29], HM Treasury, March 2008.

least £150 million a year. Acting with the companies and Ofgem, the Government will draw up a plan for voluntary and statutory action to achieve that. To underpin this as necessary, the Government will legislate to require companies to make a fair contribution.'

The Budget Statement also featured the Chancellor's intention to address the issue of disproportionately high charges made to prepayment meter customers: *'We want to see the 5 million customers on prepayment meters given a fairer deal and energy companies to increase their support to vulnerable customers.'* It remains to be seen what action Government will take to remedy any injustice.



Campaigning for Warm Homes

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