



Department
of Energy &
Climate Change

Fuel Poverty: a Framework for Future Action

July 2013



Fuel Poverty: a Framework for Future Action

Presented to Parliament
by the Secretary of State for Energy and Climate Change
by Command of Her Majesty

July 2013

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Any enquiries regarding this publication should be sent to us at

Fuel Poverty Team
3 Whitehall Place
London SW1A 2AW
FuelPovertyFeedback@decc.gsi.gov.uk

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Foreword



Fuel poverty is a real and serious problem faced by millions of households in the UK today. It is a problem that leaves many facing difficult choices about where to spend their limited income. It leaves many fearing for their health or the health of their children as they live in a home seemingly impossible to heat. This Government is determined to act.

We went back to first principles with the independent Hills Review of fuel poverty, whose report was published last year. We did not do this to move the goalposts, or to make the problem appear smaller, or to get Government off the hook. We did so to better understand the problem we are facing. I have been clear that unless we properly understand the problem, we cannot design effective solutions. A new definition is a powerful tool in this regard. But with upwards pressure on energy bills caused by rising global energy

prices and the diversity of our housing stock, our work also makes it clear that fuel poverty is a challenge of both scale and complexity. It is not a problem that can be eradicated in any meaningful way, certainly not by 2016, and not in any short time horizon. The reality of the current economic situation is that there are only limited resources to tackle the problem. So we need to use those resources effectively.

As DECC continues to roll out ground-breaking policies to drive improvements to the energy efficiency of our housing stock through the Green Deal and Energy Company Obligation, to ensure a fairer deal for consumers in the retail energy market and to put in place – for the first time – a real plan for changing the way that we meet our country's heating requirements in line with our decarbonisation goals, we must ensure that the fuel poor are not left behind.

In fact, we should seek to find ways to put the vulnerable and those facing the most grinding fuel poverty at the forefront of our plans for action. There are opportunities with multiple benefits if we can better understand the interplay between our key policies, including by monitoring progress on an on-going basis and refining delivery in a more nimble way than in the past. I believe that saving energy, cutting carbon and helping the fuel poor can go hand in hand, and through this framework for action we will be able to identify ways to make that happen.

Similarly, I am committed to working with my colleagues across Government to identify areas of common interest, sharing expertise, data and networks to achieve multiple objectives through joint efforts. Our work into the health benefits arising from tackling fuel poverty gives a clear indication of how efforts in one area have benefits elsewhere.

This framework document, along with the robust evidence base that underpins it, is an essential and important step in delivering a future Government Strategy for tackling fuel poverty. It is not, and cannot be, the final word on the issue. It does however provide a solid foundation for a Strategy that is realistic and sustainable for the long term and one against which Government can truly be held accountable for delivery.

EDWARD DAVEY MP

A handwritten signature in black ink, reading 'Edward Davey', with a horizontal line underneath.

Secretary of State for Energy and Climate Change

Summary

Ensuring that people are able to keep warm in their homes is a priority for this Government. As we embark on an ambitious plan to upgrade the energy efficiency of the housing stock in this country, there is a risk that low income households will get left behind. We must not forget that for some a warm home is a matter of life and death. The Government is committed to tackling this problem, and it is this concern that led to the commissioning of a Review from Professor Sir John Hills, whose final report on fuel poverty was published last year. Using the insight provided by the review and having decided on a new indicator for fuel poverty, we now believe the time is right to set out how these will inform our approach to addressing the problem.

This document sets out a framework for future action in tackling fuel poverty in England. It provides a bridge between the independent Hills Review of fuel poverty published last year and a future Government Strategy for Fuel Poverty, to be put in place following Royal Assent of the Energy Bill currently before Parliament. The approach outlined in this document is necessarily indicative as it is dependent on decisions that are yet to be taken. However, once a new legislative framework is in place, our intention is to publish a new strategy reflecting those decisions.

As part of this, we want to work closely with stakeholders in developing a new strategy and welcome their input on this framework.

The framework for future action

Section One provides an overview of why fuel poverty matters revisiting the outstanding work undertaken by Professor Hills. This established fuel poverty as a long-term structural problem and provided the foundation of a new and developing understanding of the issue; one distinct from wider poverty, being driven not only by low income but by the characteristics of the homes in which we live.

Having established the review to look at first principles, we will be changing the way we define the problem using a new Low Income High Cost indicator. Section Two sets out that new definition and our proposal for a different legislative framework to reflect the problem as we have come to understand it.

Building on the Low Income High Costs indicator, Section Three looks at what this new approach can tell us about who the fuel poor are and the scale of the problem they experience – something we have not previously been able to do. From this we identify a set of guiding principles that we will use both to assess the impact of existing policies and to design policies for the future. Section Four goes on to examine the current policy package against this new framework, setting out which types of measures we should focus on to ensure we are using our available resources efficiently.

Section Five sets out how we can build on the principles set out in Section Three as our policies evolve, how we can better target those most in need of support and what our short term priorities for action are.

Finally, Section Six builds on the proposals in Section Two in relation to a new fuel poverty target.

Section One: Why fuel poverty matters

The concern for this problem was captured in the Warm Homes and Energy Conservation Act (WHECA) which was passed with cross party support in 2000. Fuel poverty – which is a distinct issue from poverty more generally – is a concern from a number of perspectives.

Poor standards of energy efficiency mean that many low-income households face high costs to maintain a warm home and, as a result, many of these households do not heat their home to an adequate level. Many households experience pressure in paying their energy bills and these pressures tend to be most acute for households on lower incomes. However, amongst the group of low-income households, the causes of this pressure vary. For households that live in a property that is difficult to heat – and who have limited scope to improve their property – the primary cause is having higher than typical energy costs. For others, who may live in more efficient dwellings with lower energy costs, the primary cause of this pressure is having a low income.

We know that under-heating of a property can contribute to poor health outcomes, both in terms of mortality (including Excess Winter Deaths) and morbidity (particularly in terms of cardiovascular and respiratory conditions). Excess Winter Deaths claimed an estimated 24,000 lives in England and Wales in 2011/12 and, although we do not fully understand all the reasons behind these figures, we know that some of them are caused by people living in cold homes.¹

We also know that addressing fuel poverty is central to achieving our climate change goals. This is partly as a direct result of the clear synergies between the two areas of policy – where more efficient dwellings offers a win-win from lower energy bills and lower emissions. It is also because having a fair policy package – meaning in particular that all types of households are able to benefit from the transition to a low carbon future – is vital if we are to successfully meet our ambitious climate change objectives.

Finally, it is clear that many fuel poverty policies are likely to contribute to the prosperity of the nation by driving economic growth. Fuel poverty policies that drive improvements in energy efficiency – such as the Affordable Warmth obligation – drive significant resource savings, support jobs and supply chains and will ease the trade-off that many fuel poor households face between heating the home and purchasing other necessities.

The Hills Review

In order to get a better understanding of the problem, Professor Sir John Hills of the London School of Economics was commissioned to undertake a review by the Department of Energy and Climate Change in 2011. Specifically, Professor Hills was asked to look at the problem from first principles, setting out the causes and impacts of fuel poverty and assessing whether

¹ See: <http://www.ons.gov.uk/ons/rel/subnational-health2/excess-winter-mortality-in-england-and-wales/2011-12--provisional--and-2010-11--final-/index.html>

the current definition and indicator of fuel poverty (set out in the Act and the first fuel poverty strategy, which was published in 2001²) were fit for purpose.

In considering the causes and impacts of fuel poverty, Professor Hills showed that fuel poverty was a distinct issue from income poverty. He also showed that the traditional approach to measuring fuel poverty - where a household was fuel poor if it needed to spend more than 10 per cent of its income on keeping warm - captured many households that were not 'fuel poor' (as described by the Act – for example, it captured many higher-income households in inefficient homes). He also argued that the 10 per cent indicator had painted a misleading picture of trends, understating the scale of the problem when prices were low and overstating it when prices were high.

Concluding that the current indicator was not accurately measuring the problem, Professor Hills put forward his own proposal for measuring the problem that characterises fuel poverty as a problem which is distinct from poverty in general. He proposed that households are fuel poor where they are both on a lower income and have higher than typical energy costs. We discuss this more in Section Two, but one of the key features of this new indicator is the ability to distinguish between the extent of the problem (i.e. how many households are fuel poor) and its depth (i.e. what is the severity of the fuel poverty that they face). This means we can identify those households living in the most severe fuel poverty. Most significantly Professor Hills's indicator reflected an understanding of the problem as a structural one, which will require on-going effort to mitigate.

A new framework for fuel poverty

In light of these changes to the measurement framework, it is right to set out how this new indicator for measuring the problem will inform our strategic approach to fuel poverty. We have spent some time ensuring that we are measuring the problem in the right way. The key test going forward is to use this to design and deliver policies to tackle the problem as we have come to understand it.

The approach outlined in this strategic framework document is necessarily indicative as it is dependent on decisions that are yet to be taken by Parliament, as part of its consideration of the current Energy Bill. These decisions concern amendments to the WHECA. This document is not a new fuel poverty strategy to replace the existing one from 2001. We intend to publish a new fuel poverty strategy once the Energy Bill has completed its passage through Parliament, reflecting the new legislative framework that Parliament decides to put in place.

In the meantime, this strategic framework document outlines the principles which will guide our approach to the fuel poverty problem. It discusses what the new indicator of fuel poverty tells us about who is fuel poor, how we can support those households in principle and, therefore, how we might want to shape fuel poverty policies in future.

The work that we have done to develop this strategic framework has highlighted some areas where we will look to further develop our understanding to inform the new fuel poverty strategy. These are:

² See: <http://webarchive.nationalarchives.gov.uk/+/http://www.berr.gov.uk/files/file16495.pdf>

- To maximise learning from delivery and evaluation of the DECC policy package – including Warm Home Discount, Green Deal and the Energy Company Obligation, the Fuel Poverty Local Authority competition, Cheaper Energy Together and the emerging Heat Strategy – to ensure that we take every opportunity to support fuel poor households with cost effective policies (particularly for those households that are at risk of the most severe fuel poverty).
- To develop our understanding of who is fuel poor and the scope for improved targeting – as part of this we will work to develop new targeting tools based on the new indicator to see whether it can help us to target more effectively than under current approaches.
- To ensure closer cross-Whitehall working – our ability to meet our ambitions in this area means we need to draw on expertise across Whitehall. As part of our work to develop our strategic approach, DECC will set up and coordinate a cross-Whitehall working group. The purpose of the group is to share knowledge and information on issues relating to fuel poverty and where possible to align policy approaches.

This framework document sets out the proposed strategic approach for England. Wales, Scotland and Northern Ireland have their own strategies in place – in Wales and Scotland this includes statutory targets. Whilst fuel poverty is a devolved issue, many of the policies that help to tackle it are GB-wide (such as the Energy Company Obligation and the Warm Home Discount). We will continue to work closely with our partners in the Devolved Administrations in delivering these policies.

Section Two: Definition and target

Why measurement matters

As we set out in our last year's consultation on the measurement framework, it is vital that we have a definition of fuel poverty and a measurement framework that accurately captures the issue.³ Unless we properly measure the problem, we cannot design effective solutions. Having confidence in the way we measure the problem will allow us to develop better policies and use resources more effectively, including by focusing support on those who need it most.

A new indicator of fuel poverty

We have decided to adopt a new indicator to measure fuel poverty, based on the recommendations from Professor Hills's independent review.⁴ This new indicator (which is depicted in **Figure 1**) finds a household to be fuel poor if:

- Their income is below the poverty line (taking into account energy costs); and
- Their energy costs are higher than is typical for their household type.

It also uses a fuel poverty gap. This is the difference between a household's modelled bill and what their bill would need to be for them to no longer be fuel poor. In **Figure 1**, example fuel poverty gaps are depicted by arrows. The purpose of the fuel poverty gap is to measure the severity of the problem faced by fuel poor households. Under this new approach we therefore have twin indicators of the 'extent' and 'depth' of fuel poverty.

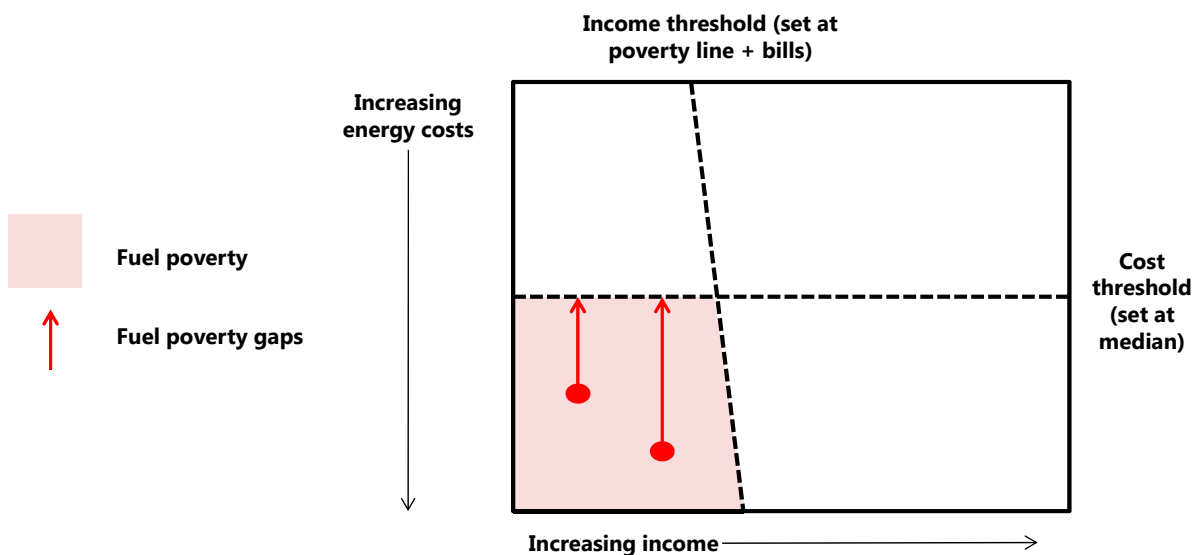


Figure 1: The low income high costs definition

³ See: <https://www.gov.uk/government/consultations/fuel-poverty-changing-the-framework-for-measurement>

⁴ Our decisions on the measurement framework (and the rationale for those decisions) are set out in the consultation response that accompanies this document. See: <https://www.gov.uk/government/consultations/fuel-poverty-changing-the-framework-for-measurement>

Under this approach, the number of households is relatively stable in the face of changes in energy prices – although as prices rise, the number of fuel poor households increases unless there are other improvements (for example to incomes or energy efficiency standards). The fuel poverty gap is relatively sensitive to changes in energy prices – this reveals how upward pressure on bills deepens the hardship already experienced by fuel poor households.

As well as more accurately measuring the number of fuel poor households, the new indicator (through the fuel poverty gap) allows us to identify those who are suffering the most severe fuel poverty. The new Low Income High Costs (LIHC) indicator of fuel poverty finds 2.5 million households in England to be fuel poor in 2010, with a total fuel poverty gap of £1 billion or £405 per household in fuel poverty.

Putting in place a new framework for measuring fuel poverty inevitably means some changes to the types of households and people who are found to be fuel poor. For example, many households on a higher income are no longer captured. In addition, some low income households, who would previously have been captured under the 10 per cent indicator, no longer are.

We set out in the previous Section that fuel poverty is a distinct issue from poverty more generally and, as such, we do not consider that all low income households are in fuel poverty. However, we recognise that rising energy prices affect everyone and it is important that we understand the impact of rising energy prices on all low income households, whether they are fuel poor or not. To this end, the Department of Energy and Climate Change (DECC) produces an analytical report that estimates the impact of rising energy prices on household energy bills – including the impacts of Government policies across households at different points in the income distribution – and the Government has a range of policies in place to support these households.⁵ We will return to this issue in Section Four.

A new fuel poverty target

Underpinning all of the action that we undertake on fuel poverty is the WHECA. This Act, originally introduced as a Private Member's Bill, sets out the obligation on the Secretary of State to specify a target date in the fuel poverty strategy for achieving the objective of ensuring that, as far as reasonably practicable, no person lives in fuel poverty (i.e. they are a member of a household living on a lower income in a home which cannot be kept warm at reasonable cost).

This form of wording suggests that the focus any fuel poverty strategy should be eradication insofar as this is reasonably practicable. However, Professor Hills in his review suggested a different understanding of the problem of fuel poverty. He conceptualised it as a relative and structural issue. In turn, this suggests a different focus for action: one of on-going efforts to mitigate and reduce the extent of fuel poverty, to ensure that the fuel poor do not get left behind, rather than an approach concerned with eradication.

A target concerned with eradication insofar as is reasonably practicable, and measured using the old 10 per cent indicator, has proved unhelpful in designing policies to mitigate fuel poverty. This is particularly the case because the indicator means that the number of people living in

⁵ The latest report was published in March 2013 and can be found at:
[https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/172923/130326 - Price and Bill Impacts Report Final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/172923/130326_-_Price_and_Bill_Impacts_Report_Final.pdf)

fuel poverty is highly sensitive to (and dominated by) changes in energy prices. The old indicator also masks the impact of policies and distorts the choices between different policy approaches. In contrast, the new LIHC indicator underpins better policy making and allows us to set a framework to encourage continual action and improvement.

To ensure that Government faces the correct incentives to deliver an effective policy response that drives action to alleviate fuel poverty for the long-term, especially amongst the households that are most in need of support, we believe we need a different legislative framework and a new form of legislative target. Such changes will also mean Government can be more effectively held to account for the actions we are taking to tackle fuel poverty.

Any new target should drive the right actions, which means delivering cost-effective support to households that are most in need. To this end, it is important that any target is specified in a way that reflects the impact that Government policies are having in improving people's circumstances. We therefore propose focusing our efforts primarily on ensuring that those households who are fuel poor (as defined by the LIHC indicator) attain a certain standard of energy efficiency in their homes. Progress could be measured against an average or minimum standard of energy efficiency for fuel poor households. We return to the fuel poverty target – and the legislative framework – in Section Six.

Reporting

We will continue to produce our annual fuel poverty statistics publication. The latest fuel poverty statistics were published on 16 May 2013.⁶ These included statistics using both LIHC indicator and the previous 10 per cent indicator. From now on, the focus will be on using the LIHC indicator as the basis for the statistics.

We will also work with the Fuel Poverty Methodology Group to continue to refine the fuel poverty methodology. This is the methodology used to calculate fuel poverty statistics.⁷ We will use the latest evidence from the Energy Follow-Up Survey and actual consumption data to improve our understanding of fuel poverty and to review aspects of the methodology such as temperature standards, heating duration patterns and appliance use. If the latest evidence suggests these assumptions might need to change, we will consult with relevant stakeholders on possible amendments. This work will help ensure that the fuel poverty methodology provides accurate estimates of the costs associated with maintaining an adequate standard of warmth in the home across a representative range of households.

⁶ Ref: <https://www.gov.uk/government/publications/fuel-poverty-report-annual-report-on-statistics-2013>

⁷ See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/66018/614-fuel-poverty-methodology-handbook.pdf

Section Three: Who are the fuel poor and how will we help them?

As we set out in the previous Section, ensuring that the framework for measurement correctly captures the problem is a vital first step in tackling fuel poverty. The LIHC indicator captures a relatively stable set of fuel poor households – the English Housing Survey (EHS) shows that there were 2.5 million fuel poor households in England in 2010. These are a combination of families, pensioners and single person households in all parts of England and across a range of house types and tenures. The analytical annex that accompanies this document sets out in more detail how the 2.5 million fuel poor breaks down across different dwelling (e.g. tenure), household (e.g. income) and geographic (e.g. rural/urban split) characteristics.

The new indicator also allows us to distinguish between the relative depths of fuel poverty faced by different households. This is demonstrated by Figure 2 which shows how in theory we can use the indicator to understand which households face the most severe problem.

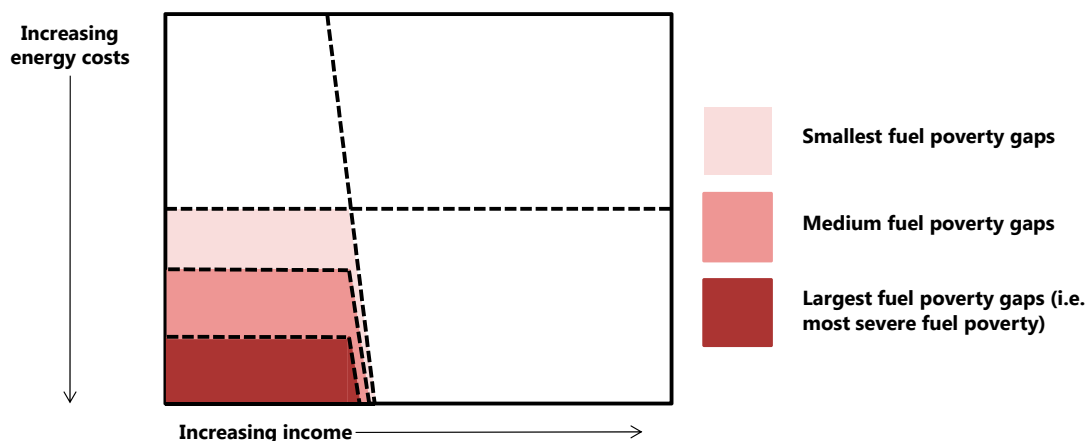


Figure 2: Using the LIHC indicator to identify the severely fuel poor

The new indicator therefore allows us to understand and analyse the fuel poverty problem in a way that was not possible under the 10 per cent indicator. It shows us the households experiencing the most severe problem and helps inform decisions on how we can best support them. It is our expectation therefore that the LIHC indicator will help us to develop a more effective policy response. The following sections discuss how we will use the new indicator to shape fuel poverty policies in future.

What does the new indicator tell us about who the fuel poor are?

Fuel poverty is primarily driven by three different factors: household income, energy prices and the thermal efficiency of dwellings (in turn reflecting a whole range of dwelling characteristics). We have used the new indicator to help to isolate the impact that particular characteristics have on the likelihood of a household being in fuel poverty or severe fuel poverty (which, for the purpose of our analysis, we define as the one-third of fuel poor households with the highest fuel poverty gaps). Some of the key results of this analysis are shown in Figure 3 – see the accompanying analytical annex for full details of this analysis.

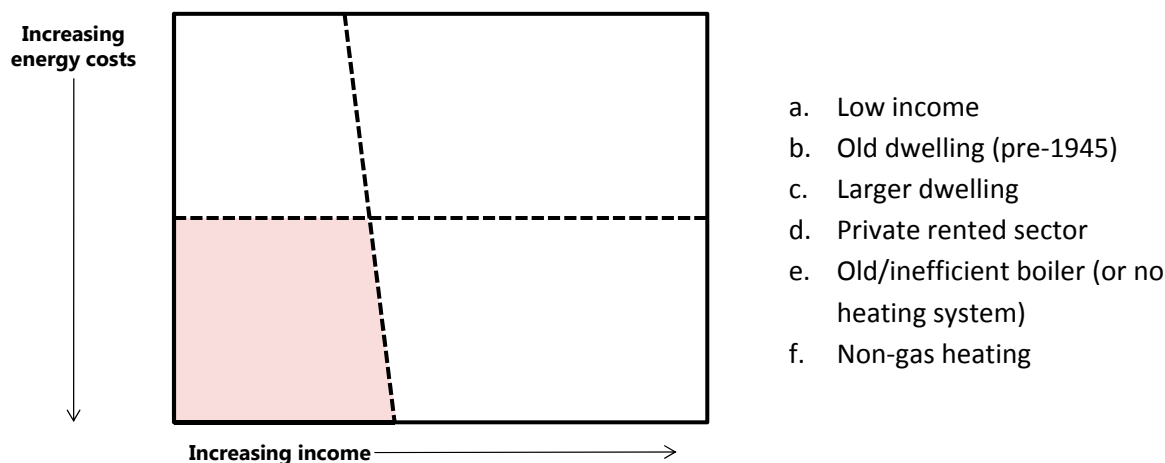


Figure 3: Household and dwelling characteristics that increase the likelihood of a household being fuel poor

As we would expect, characteristics that drive high modelled energy costs (e.g. having a large, poorly-insulated dwelling with an inefficient heating system) and low incomes increase the likelihood of a household being fuel poor. The analysis suggests that the size and age of a dwelling and the use of a fuel other than gas to heat the home are strongly associated with fuel poverty.

Many of the same characteristics are associated with households in severe fuel poverty. However, the analysis demonstrates that some of these characteristics – particularly the age and size of the property – are very strongly related to severe fuel poverty. This means that many of the most severely fuel poor households are living in larger dwellings with solid walls.

The fact that the LIHC indicator captures a significant number of large dwellings raises the issue of under-occupation. The tendency of the LIHC indicator to capture larger dwellings means that many low income households where the property is ‘excessively sized’ for the number of occupants will be fuel poor. However, the evidence suggests that the size of the property is one of the most important factors in driving high energy costs and, as such, it is our view that a focus on larger properties is appropriate.

We intend to keep the issue of under-occupation under review as we continue our work to develop the fuel poverty methodology in order to ensure that it accurately captures the costs of maintaining an adequate level of temperature in the home. Some further details on the issue of under-occupying are set out in Box 1.

In addition to helping us identify the depth of fuel poverty, the LIHC indicator draws a clear distinction between fuel poverty and income poverty. Low income low cost (LILC) households tend to be smaller, more energy efficient dwellings, facing lower energy costs than LIHC households. We believe that these LILC households are not the households we should initially prioritise for support. This is not to say that LILC households will be unable to access support through Government policies. As we will set out in Section Four, the Government has a range of policies in place to support low income households with the cost of energy.

Naturally, answers to the questions ‘who are the fuel poor?’ and ‘who should be prioritised for support?’ change over time. We expect the composition of the fuel poor – and therefore our view of which households should be the focus of fuel poverty policies – to evolve in response to

changes in household circumstances. This may particularly be the case as a result of improvements in energy efficiency standards amongst fuel poor households. The way that we think about fuel poverty and our policy package will therefore need to be responsive to the dynamic nature of the problem.

Box 1: Under-occupation

The fuel poverty methodology defines under-occupation as where a dwelling is excessively sized for the number of occupants that live there. Where a house is under-occupied, the fuel poverty methodology assumes that only a proportion – approximately half – of the dwelling will be heated. This means that, all things being equal, under-occupation reduces the likelihood of a household being fuel poor.

Whilst this is a sensible adjustment to make in measuring required energy costs – as a person living in an ‘excessively sized’ dwelling is unlikely to heat the entire property – it is clearly a simplification of reality. For example, in the very largest properties it may be that occupants will only heat certain rooms which could mean that the half-house heating regime is over-estimating their energy costs. This may therefore be an area to examine again within any review of the methodology.

What are the options for supporting fuel poor households?

As we have set out above, the LIHC indicator helps us understand the characteristics of the households that are in fuel poverty and which of those households we might want to prioritise for support. Developing a strategy to support these households requires us to understand the range of policy options that exist and how these options compare in terms of cost-effectiveness. Such an understanding will help us use resources efficiently, including by identifying where there is cost-effective potential to support fuel poor households and where there may be trade-offs associated with targeting support at one group of households over another.

Fuel poor households can be supported with policies that reduce energy cost (which include policies that increase energy efficiency, encourage switching to better energy tariffs and/or directly support household energy costs) and through policies that increase incomes.

The Hills Review suggested that – based purely on a consideration of subsidy cost – those policies that improve the thermal efficiency of dwellings tend to be more cost effective for addressing fuel poverty compared to policies that are focused on subsidising energy costs or increasing incomes. We have built on this analysis by constructing a Fuel Poverty Marginal Alleviation Cost Curve (FP-MACC) to show the potential and cost-effectiveness of the different options that are available to support fuel poor households. The FP-MACC shows the types of support that should be prioritised in order to drive an improvement in fuel poverty in the lowest cost way.

An illustrative FP-MACC showing the ‘merit order’ of options that are available to improve the energy efficiency of fuel poor households is shown in **Box 2**.⁸ This particular curve shows the options that are available in 2015 for improving the efficiency of fuel poor households above an illustrative threshold of SAP 55 (which is the boundary between Energy Performance Certificate E and D-rating).⁹ Each of the bars in the FP-MACC represents a different intervention and the colour of the bars shows the opportunities that are available to support households with the largest (blue), medium (green) and smallest (purple) fuel poverty gaps.

The height of the bars shows the cost-effectiveness of the different options. Those options on the left-hand side show net social benefits and those on the right-hand side show net social costs. The width of the bars shows the potential to alleviate the problem through each measure. Further details of how the fuel poverty MACC has been derived are set out in the accompanying analytical annex. The annex also includes additional curves for further years. This is an important consideration because we expect the costs associated with different technologies to change over time.

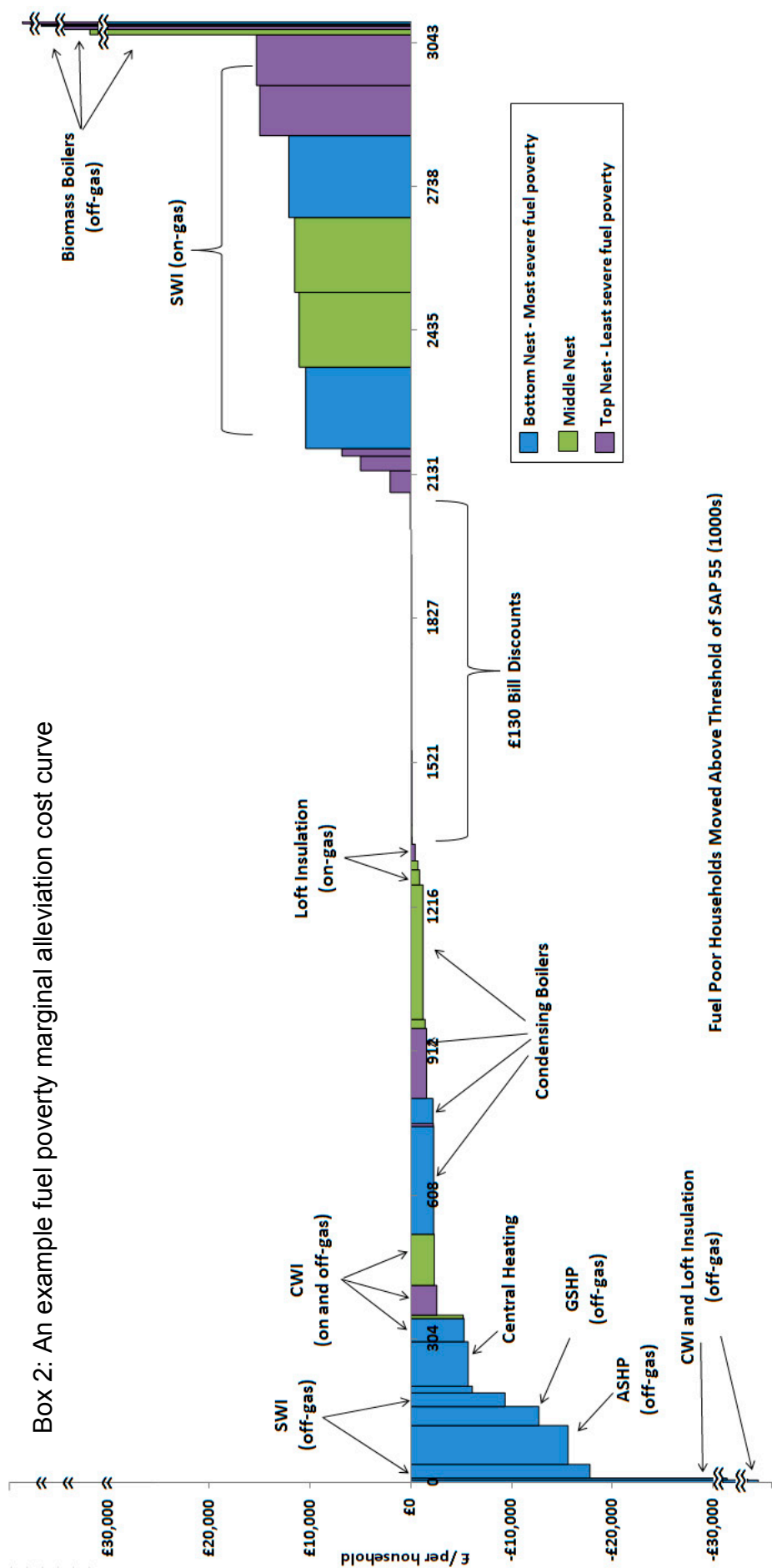
The analysis shows that there is significant potential for cost-effective measures to support the fuel poor. There are a number of noteworthy aspects:

- The importance of energy efficiency and conventional heating: there is significant cost-effective potential for low-cost loft and cavity-wall insulation (CWI) and heating measures. Much of this potential is among severely fuel poor households. In addition, the analysis suggests that there is some cost effective potential for more expensive efficiency measures.
- The role of renewable heat: the MACC suggests that there is some potential for supporting fuel poor households through renewable heat – for example, ground-source heat pumps (GSHP) and air-source heat pumps (ASHP) – particularly in fuel poor households that are not connected to the gas grid.
- Energy bill rebates: in contrast to efficiency measures (which tend to have on-going benefits to a household) energy bill rebates only have a positive impact on a household in the year in which the rebate is paid. In spite of this, the MACC suggests that rebates are more cost-effective than many of the more expensive efficiency and heating options. Furthermore, energy bill rebates are also something of a special case in the MACC as it is possible (in principle at least) to deliver a very large number of energy bill rebates in a given year. This is unlikely to be the case for most energy efficiency and heating measures – where, due to supply constraints, it would tend to take a number of years to deliver all of the available measures to households.

⁸ In order to help us to compare the cost-effectiveness of a variety of options, the FP-MACC incorporates physical energy efficiency improvements as well as energy bill rebates. We have incorporated rebates through an adjustment to the SAP related household energy costs for recipient households. See the accompanying analytical annex for further details).

⁹ The Standard Assessment Procedure (SAP) is the methodology used by Government to compare the efficiency and environmental performance of dwellings.

Box 2: An example fuel poverty marginal alleviation cost curve



The FP-MACC is a useful tool for guiding policy development. However, it only examines fuel poverty solutions from the perspective of cost effectiveness. Whilst this is an important consideration, there are many other factors that Government must consider when developing policies. For example, the FP-MACC does not give a sense of the practical barriers to the delivery of certain measures (targeting of support, supply chain constraints, etc.). We need other evidence to help support decisions around delivery approaches. The issue of reconciling our analytical understanding with more practical delivery issues is set out in **Box 3**.

Box 3: Analytical understanding versus practical delivery experience

In practice, we know that delivering support to the fuel poor is more complicated than simply identifying the most cost-effective mix of measures. There are a number of questions around how best we should *deliver* policies. These include:

- How do we best overcome the barriers – for example, financial, trust, stigma - to engaging with and supporting fuel poor households?
- How should policies be targeted (e.g. the choice between area-based versus ‘pin-pointing’ interventions)?
- Is it best to deliver whole-house packages of measures (which potentially means supporting fewer households in the short term with more expensive insulation and heating options)?

The FP-MACC can help us with some of these issues but not with others. As such, the analytical understanding that we get from the MACC needs to be complemented by real-world delivery experience that we can gather through policy evaluation (we return to the issue of evaluation in Section Six). It is clear that understanding both of these factors is an essential part of designing an effective policy package.

In addition, the Government has objectives that extend beyond those relating to fuel poverty, such as driving greenhouse gas reductions and the deployment of renewable energy. Pursuing these aims may result in a policy package that diverges from the lowest cost option as shown by the FP-MACC. However, the FP-MACC remains a useful tool in helping us to understand the trade-offs that exist in policy development and to help to prioritise the types of support that should be the focus of fuel poverty policies.

Vulnerable households

Fuel poverty policies have historically been targeted at groups of ‘vulnerable’ fuel poor households – in particular, households containing older people, children and long-term sick and disabled people. Vulnerable fuel poor households face the problem of low income and high energy costs. What is more, they are more likely to suffer negative impacts as a result of their fuel poverty. The vulnerability of certain households will continue to be a factor when prioritising households for support and when determining how those households should be supported.

In the context of fuel poverty, vulnerability encompasses a range of wellbeing and social issues. The evidence of cause and effect is strongest in the area of health. Here the evidence

suggests that there are a number of health conditions – including cardiovascular and respiratory diseases – that are caused or exacerbated by living in cold conditions. Whilst all types of people can be affected negatively by living in cold homes, the evidence points to the fact that the impacts are most acute for vulnerable households, particularly children and older people. For example, children living in cold homes are significantly more likely to suffer from chest problems, asthma and bronchitis.

The fuel poverty methodology takes some account of the vulnerability status of households by applying a more generous heating regime to people who are likely to spend more time in the home (e.g. households containing pensioners, families with young children and long term sick or disabled). This means that these types of household tend to have high energy requirements and are more likely to be classified as fuel poor. However, the LIHC indicator does not capture the fact that these types of vulnerable fuel poor households are more likely to suffer negative health impacts as a result of their fuel poverty.¹⁰

The fact that certain types of people are more vulnerable to the negative impacts of fuel poverty is an important consideration for fuel poverty policies. In order to help us better reflect the impact of cold homes in our policy development, we have been working with experts to develop a methodology to estimate and monetise the health impacts of fuel poverty policies (further details of this work are set out in **Box 4**).

¹⁰ The previous 10 per cent indicator treated vulnerability in the same way. That is, the methodology gave vulnerable households a more generous heating regime but did not capture the fact that vulnerable households are more likely to suffer negative health impacts.

Box 4: Estimating the impact of fuel poverty policies on health

We have been working with external experts in health and energy to develop a methodology to estimate and monetise the change in Quality Adjusted Life Years (QALY) that results from improving the efficiency of dwellings and the resulting increase in temperatures. The model makes use of epidemiological evidence to capture the relationship between a change in exposure to cold/internal pollutants and certain negative health outcomes. It then uses a 'life table' model to estimate patterns of survival in the population. Further details of the methodology can be found in the accompanying analytical annex. The table below sets out some of our initial estimates of the benefits associated with a range of interventions. It expresses these health benefits in terms both of QALY impacts and of estimated net present value (NPV). It is clear that there are substantial health benefits associated with some fuel poverty measures.

Intervention	Quality Adjusted Life Years (QALY) saved per measure installed	Value of health saving per measure installed (£ – NPV)
Cavity wall insulation	0.049	£969
Solid wall insulation	0.036	£742
Replacement boiler	0.009	£224
Central heating	0.012	£303

This suggests that there are substantial health-related costs associated with cold homes. For this reason, we believe that we should continue to prioritise vulnerable fuel poor households for support. In addition, we will continue to build the evidence base on health impacts. Being able to better measure the health-related costs of cold homes will help us to understand how we should prioritise vulnerable households for support through our policies and will also help us to reflect the benefits associated with fuel poverty policies in policy design.

Conclusion: what does this tell us about how we should design fuel poverty policies?

In this Section, we have set out how the LIHC indicator helps us to identify a set of 'guiding principles' that we can use both to assess the effectiveness of our current package and to help shape the development of future fuel poverty policies. These are:

- Prioritisation of the households that are suffering from the most severe problem: the new indicator helps us to understand the factors that are important in driving fuel poverty (and severe fuel poverty) and to identify a set of risk factors that will help us to prioritise support to those households that are suffering from the most severe problem;
- Supporting priority households through cost-effective policies: the FP-MACC helps us understand where there is cost effective potential to support fuel poor households and also the trade-offs that may result if we prioritise supporting more 'hard to treat' households. This

is an important consideration – but by no means the only one – in developing fuel poverty policies and will help to ensure that we are using available resources effectively; and

- Ensuring that vulnerability is reflected in fuel poverty policies: this means that we will continue to prioritise vulnerable fuel poor households – i.e. those households containing older people, children or long-term sick or disabled people – for support under fuel poverty policies.

Section Four: Current policies in a new light

In the previous Section we saw how the new indicator helps us better understand the nature of the fuel poverty problem and helps us identify which households should be prioritised for support. The analysis presented in that Section shows the range of options available to support fuel poor households and also which types of measures we should focus on to ensure that we are using our available resources efficiently. This analytical framework will help us shape fuel poverty policies in future. It will also tell us how effectively current Government policies are supporting fuel poor households.

The following Sections show the aggregate impact of the current policy package before examining Government policies in more detail in order to assess how effectively current policies are supporting the fuel poor (and the severely fuel poor).

What is the impact of the current policy package?

The current climate and energy policy package is expected to deliver support to millions of households and will drive a reduction in fuel poverty. The estimated impact on the fuel poverty gap of the climate and energy policy package is shown in Figure 4. The impact of the policy package is shown relative to a 'no policies' scenario – that is, a scenario where no climate and energy policies are implemented. The projections show that the fuel poverty gap is expected to increase significantly in the 'no policies' projection, from around £1.0 billion in 2010 to around £1.6 billion in 2022. This is largely the result of rising fossil fuel prices.

The projections show that policies are expected to drive a significant reduction in the fuel poverty gap over time. The 'with policies' projection suggests that the fuel poverty gap will be reduced by over 20 per cent in 2022 as a result of policies. This equates to an absolute reduction in the fuel poverty gap of around £350 million. Further details on these projections, including the methodology and assumptions, are set out in the analytical annex.

The key factor behind the reduction in the fuel poverty gap (relative to the 'no policies' projection) is the improvement in the energy efficiency of dwellings. Our estimates suggest that the climate and energy package will increase the average SAP rating of fuel poor households from around 47 in 2010 to around 55 in 2022.

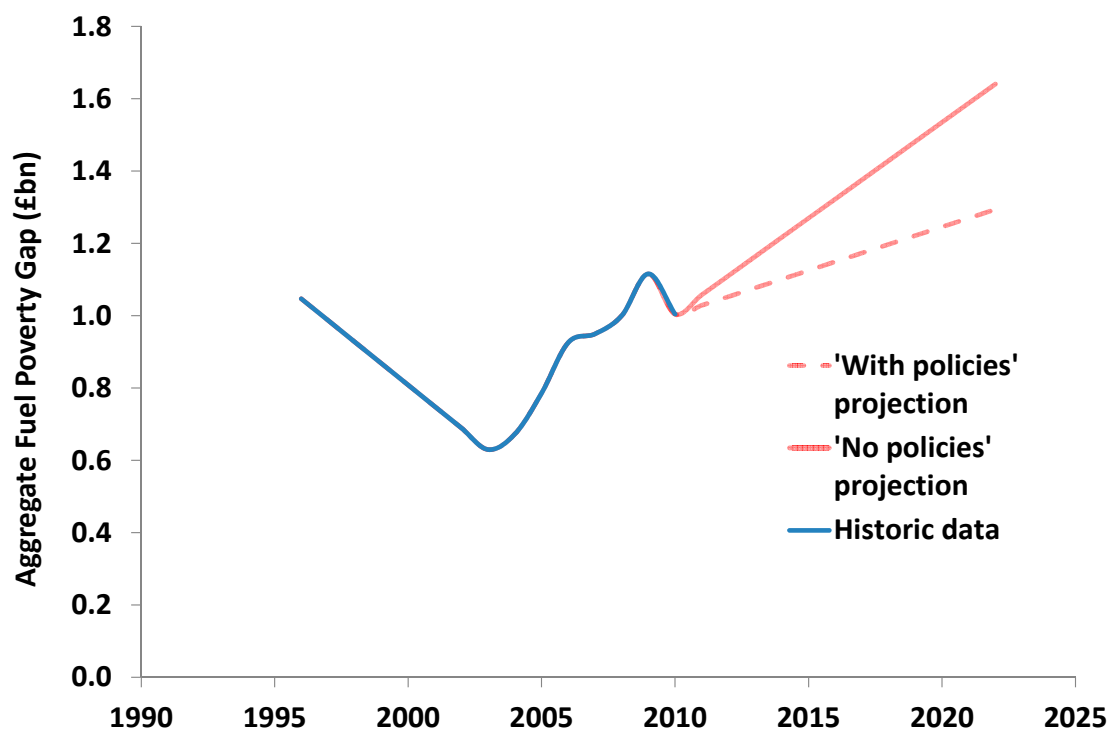


Figure 4: Impact of climate and energy policies on the fuel poverty gap

How we support fuel poor households

Fuel poverty is a problem resulting primarily from inefficient dwellings that are costly to heat, low incomes and high energy prices. Tackling the problem therefore requires a cross-Government response and the Government has a set of policies that impact directly and indirectly across each of the three drivers of fuel poverty.

Energy efficiency

As we set out in Section Three, policies that improve thermal efficiency in low income households are often the most cost effective way of reducing energy costs. Over the recent past, the Government has driven a significant improvement in household energy efficiency through expenditure programmes (such as Warm Front and the Decent Homes Programme), and energy supplier obligations (such as the Carbon Emissions Reduction Target and the Community Energy Saving Programme). This has also been achieved through regulations - for example, through the improvement in the efficiency of appliances that has been led by the Department for the Environment, Food and Rural Affairs (Defra) or through the improvement in condensing boilers that has resulted from Department for Communities and Local Government (DCLG) policies on building regulations.

Going forward, the Green Deal is the key policy supporting households to lower energy costs through the installation of energy efficiency measures. The Green Deal is designed to help households pay for energy efficiency improvements through the savings that they make on their bill. Alongside the Green Deal, the Energy Company Obligation (ECO) requires energy

suppliers to support the delivery of measures in 'hard to treat' households that do not meet the 'Golden Rule' and amongst low income households.¹¹

There are three components to the ECO:

- the Carbon Saving Obligation (CSO) works alongside the Green Deal to provide support for the delivery of measures in hard to treat properties (such as those with solid-walls);¹²
- the Carbon Saving Communities Obligation (CSCO), an obligation to deliver insulation measures in deprived and rural areas (and which is expected to deliver a combination of lower-cost loft and cavity wall insulation as well as some solid wall insulation); and
- the Affordable Warmth Obligation (AW) which is expected to support basic heating and insulation measures in low-income private tenure households.¹³

It is clear that the ECO will deliver significant support to fuel poor households. CSCO and AW are expected to benefit 230,000 low income and vulnerable households each year to March 2015, with around 50,000 measures having already been installed up to the end of April 2013¹⁴. We expect many hard to treat dwellings to be improved by Green Deal Finance and the CSO. Furthermore, we expect many of the most cost-effective opportunities for energy suppliers to meet their obligations to be in larger, off-grid properties that tend to have the highest energy bills and carbon emissions. These are also among the types of households that are more likely to be in severe fuel poverty. Of course, the impact of the Green Deal on the severely fuel poor will depend on the precise way in which the policy delivers on the ground.

Alongside the Green Deal, we are working on regulations to encourage the uptake of energy efficiency measures in the private rented sector (PRS). The Energy Act 2011 contains a provision that from April 2018 landlords will not be permitted to rent out any property that does not meet a minimum EPC rating (likely to be set at EPC band E). Use of these regulation making powers is conditional on there being no net or up-front costs to landlords. There are a large number of low-efficiency homes in the PRS which, as shown in Section Three, is reflected in the greater propensity for these types of households to be fuel poor and severely fuel poor.

The Decent Homes programme has been in place since 2000, ensuring that social housing achieved a minimum standard against four criteria including providing a reasonable degree of thermal comfort. Since April 2010, the Decent Homes standard has been a regulatory requirement for social landlords. Refurbishments include such works as replacing old central heating systems, installing double glazing and cavity wall and loft insulation.

The Spending Review 2010 allocated £1.6 billion of capital funding to local authorities to help refurbish 127,000 council homes as well as £0.5 billion 'gap funding' to provide on-going support for housing associations who have taken on non-decent stock from councils.

¹¹ The 'Golden Rule' says that the typical expected savings from the installation of efficiency measures must be equal or greater to the Green Deal charge attached to the household energy bill.

¹² In ECO legislation, this is referred to as the Carbon Emissions Reduction Obligation

¹³ In ECO legislation, this is referred to as the Home Heating Cost Reduction Obligation

¹⁴ <https://www.gov.uk/government/organisations/departments-of-energy-climate-change/series/green-deal-and-energy-company-obligation-eco-statistics>

Local Authorities have a role to play in addressing fuel poverty and the Government has been working closely with the local government sector to help to improve the energy efficiency of fuel poor households. For example, through the Home Energy Conservation Act (HECA) Guidance, Local Authorities are required to report every two years setting out the energy conservation measures that the authority considers practicable, cost-effective and likely to result in significant improvement in the energy efficiency of residential accommodation in its area. The first reports were due on 31 March 2013. The guidance also notes that authorities may wish to use their HECA reports to develop a separate Affordable Warmth Strategy and to consider the role that local Health and Well Being Boards and local health partners, as well as how local authorities' existing duties and powers under the Housing Health & Safety Rating System, could play a role in supporting any such plans. The HECA guidance helps to strike a balance between encouraging actions to promote improved efficiency whilst not creating undue burdens.

In late 2012, the Department of Energy and Climate Change (DECC) ran a £31 million competition for Local Authorities to tackle fuel poverty in their area¹⁵. We are currently undertaking a range of evaluation activities through which we hope to better understand how Local Authority-led delivery models can help facilitate delivery of measures to the most hard to reach fuel poor households. Some of the details of this evaluation are set out in **Box 5**.

Box 5: Evaluating the Fuel Poverty Local Authority Competition

The Fuel Poverty Local Authority Competition has provided support to 60 projects, involving 169 local authorities working individually or as part of consortia. The number and variety of projects offers considerable potential for learning and insight into local authority-led delivery models for alleviating fuel poverty.

We want to assess the impact of the funding through data collected on the type of households helped and number and nature of measures delivered and we also want to explore how alternative delivery approaches influence project outcomes. For example, whether and how local knowledge and networks are used to identify and target the fuel poor.

Our evaluation will take a number of forms:

- quantitative data gathered from all authorities capturing information on what has been delivered and to whom;
- a self-evaluation survey for all authorities involved, to tell us more about the experience of running their projects;
- a more focused and detailed process evaluation of the competition, whereby an independent team will carry out qualitative research, reviewing all the successful bids, and carrying out interviews with a small sample of project leads and key stakeholders, following them on their journey;

¹⁵ <https://www.gov.uk/decc-local-authority-competition>

- collection of monitoring and evaluation information produced by Authorities during the course of their project.

In these ways we hope to understand how such projects are delivered in practice and the impacts that they have in their communities. We also want to capture information on any interesting, innovative, and effective approaches being used in order to draw out lessons to inform future policy development.

DECC published its Heat Strategy in 2012, setting out how the way we produce and consume heat will have to change to support the delivery of our greenhouse gas and renewable energy targets.¹⁶ The follow-up document *The Future of Heating: Meeting the Challenge* builds on the strategic framework and proposes a set of actions that the Government intends taking forward.¹⁷ This includes an extension of the Renewable Heat Premium Payment (RHPP) scheme, along with establishing the Heat Networks Delivery Unit (HNDU) to support local authorities in developing plans for district heating.

The Renewable Heat Incentive (RHI) will be the key policy for promoting the take-up of renewable heat in the domestic sector. This will provide Exchequer-funded support for renewable heat installations in households. We will be announcing final details of the scheme in summer 2013, with the expectation that we will launch the scheme in the following spring.

The evidence presented in the previous Section suggested there may be some instances – particularly in off gas-grid properties – where renewable heat could be a cost-effective measure for supporting fuel poor and severely fuel poor households. As it is a tariffs-based policy, households will have to find the up-front costs to install renewable heating. This could be a barrier for many low-income households. We are exploring a number of ways to address this:

- Registered Social Landlords (RSLs) are an important route to tackling fuel poverty. We sought evidence through the domestic RHI consultation on how we might make the scheme available to RSLs for installation of individual renewable heating systems;
- RSLs are also currently eligible for the non-domestic RHI if they install heating equipment which supplies more than one property;
- Based on experience with other schemes, such as Feed in Tariff (FITs), we anticipate that the market will respond to the domestic RHI by creating specific funding packages around the RHI such as loans or other finance schemes to help consumers with the initial capital outlay for their renewable heating systems; and
- Green Deal financing could also provide some of the up-front capital costs of installing renewable heat equipment in homes.

¹⁶ See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48574/4805-future-heating-strategic-framework.pdf

¹⁷ See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/190149/16_04-DECC-The_Future_of_Heating_Accessible-10.pdf

The transition to low carbon heating – whether this is through the RHI, heat networks or otherwise – will have a significant impact on the way in which people heat their homes and also potentially on the costs of heating. We will therefore continue to work to understand these impacts under alternative future scenarios in order to ensure that we can exploit any synergies between low carbon heat and fuel poverty.

Prices

The price that households pay for their energy is largely driven by movements in fossil fuel prices. However, Government has a range of policies in place to help all consumers get a better deal from the market. We know that switching to the best tariff available can help households to make significant energy bill savings. We also provide direct energy bill support to many low-income and vulnerable households.

Government (through the current Energy Bill) and Ofgem (through its Retail Market Review) are reforming the market to ensure that energy companies place consumers on the cheapest tariff that meets their preferences and provide clear information and fewer tariffs so that it is easier for consumers to shop around for the best deals. This will help ensure that all households, including those that are fuel poor, are better able to access lower-cost tariffs.

Consumers can also potentially access cheaper energy through joining together in order to negotiate better deals with energy suppliers. Last year, we announced £5 million funding to support these types of innovative collective switching schemes amongst Local Authorities and third sector organisations. The objective of the Cheaper Energy Together scheme was particularly to test ways of engaging vulnerable and low income households in these types of schemes. The evaluation of the scheme is on-going.

We are also driving the roll out of smart meters to every household in Great Britain. Smart meters will help consumers to manage their energy usage. Through real time displays, households will be able to understand the cost of the energy that they are using and avoiding waste. Smart meters will also help consumers to save money on their energy bills. This is because they help reduce “cost to serve” and make it more straightforward for households to switch. Both factors can be expected to drive greater retail competition.

We recognise that some households will require more support and guidance in order to help them engage effectively with energy markets and secure the best deal for them. Many vulnerable fuel poor households may require face-to-face advice to give them the confidence to take the right decisions to reduce their bills. There are many examples of third-sector-led outreach campaigns targeting support at vulnerable households, including the Energy Best Deal and Big Energy Saving Week. In the discussion document *Ensuring a Better Deal for Energy Consumers* however the Government consulted on the idea of establishing a coordinated network of third sector organisations that work with advisors to support vulnerable households to engage with the energy market.¹⁸ In the next Section, we will set out how we expect this Network to play a role in helping more of the fuel poor and severely fuel poor to benefit from lower energy prices and bills.

¹⁸ See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/66515/6996-better-deal-energy-consumers.pdf

In addition to the action that we are taking to help all households access the best tariff for them, we are providing direct support with energy bills to many low income and vulnerable households through the Warm Home Discount (WHD).

This policy currently provides help to around 2 million low income and vulnerable households annually. In 2012/13, this included around 1.5 million rebates of £130 paid to low-income households, including 1.16 million low-income pensioners. Many of these households receive their WHD automatically through the sharing of data between energy companies and the Department for Work and Pensions (DWP).

The WHD provides direct energy bill support for many LIHC households but also many LILC households. This means that the policy both contributes to our fuel poverty objectives and also helps to address broader affordability concerns. WHD is therefore a highly effective tool for alleviating some of the negative impacts of rising energy prices for many low income households.

The Government has recently announced its continued support for the WHD with a budget of £320 million in 2015/16. We will look to ensure that the future scheme is consistent with the new fuel poverty strategy.

Incomes

Measures that increase incomes offer a way to improve living standards for large numbers of households. Government policies which increase incomes do not tend to discriminate according to household energy costs. This means that policies which increase incomes support fuel poor households as well as helping to address affordability issues for many non-fuel poor, low-income households.

DWP is currently working towards the introduction of Universal Credit. It will create a simpler, fairer benefits system that aims to ensure that people are always better off in work than on benefits. It will sweep away the complexity of the current system, which has become the biggest barrier to work, replacing six main benefits with a single monthly payment for people in work or out of work, and smoothing the transition from welfare to work. These reforms will make the financial benefits of work clearer to claimants, while reducing the risks of taking up a job.

For older people, proposed reforms to state pension from 2016 will also deliver simplicity: a simple flat-rate state pension for future pensioners that is set above the basic means test - to provide a clear foundation for retirement saving.

These reforms are in addition to the work that DWP already does to help to ensure that households are claiming all of the benefits to which they are entitled. For example, through the provision of a visiting service to help vulnerable people to access the department's services as well as working with a large number of local community organisations to provide advice and support to pensioners.

In addition, there is the Winter Fuel Payment. This is an annual payment that is made to all households containing someone over female state pension age. It is intended to provide assurance to older people that they can keep warm during the colder winter months because they know they will receive help with their bills.

Cold Weather Payments provide additional support to many vulnerable people who have to manage on a low income. These payments are paid weekly in very cold winter weather and provide vital support to millions of fuel poor households. Again, they give recipients confidence that they can afford to heat their homes during severe cold periods.

The aggregate impact of the tax and benefit system leads to income being shared more equally between all households (see **Box 6** for further details of the estimated impact in 2010/11). This has a significant impact in terms of removing many households from poverty (and in doing so will remove many households from fuel poverty).

Box 6: The impact of tax and benefit policy on the income distribution in 2010/11

Analysis by the Office for National Statistics shows the overall impact of taxes and benefits on household incomes. The table below shows original income (pre-tax and benefits) and final income (post tax and benefits) on households at different points in the income distribution.¹⁹ The estimates demonstrate the clear impact that tax and benefit policies have in terms of supporting low income households and reducing income inequalities.

Average household income (£000 pa)	Income quintile group				
	1 (lowest incomes)	2	3	4	5 (highest incomes)
Original income	5.1	11.8	22.5	39.6	81.5
Final income	15.2	21.4	27.1	35.5	61.4

Ensuring that policies are supporting more of the most vulnerable households

In addition to the range of policies set out above, Government can play an important role in ensuring that more of the most vulnerable households are able to benefit from support that is available. For example, Defra is committed to championing the needs of rural communities, ensuring that more fuel poor in rural areas are able to receive support through government policies. Many of the fuel poor in rural areas live in hard to heat properties with higher fuel costs, as shown through the higher fuel poverty gap of rural fuel poor households - £588 against an average gap of £404 for all households and £361 for urban households. Defra supports the network of Rural Community Councils, who play an important role at the local community level for example through awareness raising and encouraging fuel clubs that can reduce costs through bulk purchases.

Through their Cold Weather Plan, the Department of Health has developed guidance to help to reduce the number of excess winter deaths that occur each year.²⁰ The 2012 plan sets out a

¹⁹ See: http://www.ons.gov.uk/ons/dcp171778_267839.pdf

²⁰ Excess winter deaths are deaths during the winter that are above the rate expected at other times of the year.

series of steps for organisations and individuals to reduce the risks associated with extreme cold weather.²¹ Future action is likely to be led by Public Health England.

In addition, the National Institute for Health and Clinical Excellence (NICE) is developing guidance aimed at preventing excess winter death amongst vulnerable people. This will provide recommendations for best practice for practitioners in public health. Publication of the final guidance is scheduled to be in 2015.²²

Reflecting the compelling evidence in the Marmot Review on health inequalities that the drivers of fuel poverty are strongly linked to living at low temperatures, which is in turn linked to a range of negative health outcomes, the Public Health Outcomes Framework includes an indicator on fuel poverty.²³

Under new legal duties contained in the Health and Social Care Act 2012, NHS England and each clinical commissioning group must have regard to the need to reduce inequalities in access to health services and the outcomes achieved for patients. They will also be under a duty to provide services in an integrated way where they consider that this would reduce inequalities in access to those services or the outcomes achieved. Tackling health inequalities is also a priority for Health and Wellbeing Boards led by local government as part of their new public health responsibilities. The 2012 Act imposes a duty on NHS England and clinical commissioning groups to encourage integrated working in the provision of health and social care where this would help reduce health inequalities. This provides the framework for cross-sectoral working to address the poor health outcomes that are driven by socio-economic factors across society, including fuel poverty.

Conclusion: the current policy package

The Government has a range of policy measures to support fuel poor households. These policies cover each of the main drivers of fuel poverty: energy efficiency, incomes and energy prices.

We are working to ensure that it is easier for households to navigate competitive energy markets to ensure that more households can get the best deal for them. This will help lower energy prices for all households – including the fuel poor. We are also providing direct energy bill support to many low income and fuel poor households through the WHD. Alongside this, reforms to simplify the benefit and pension system will help ensure that households where there is someone of working age are better off in work than on benefits. This will have a profound impact in terms of raising standards of living for all low income households.

Improving standards of energy efficiency will always be at the heart of any fuel poverty strategy. We have a range of policies – in particular the Green Deal – in place to support households to lower their energy bills through improving their energy efficiency. Many fuel poor households will receive support through these policies and we anticipate that many severely fuel poor households will benefit.

²¹ See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/156163/9211-TSO-NHS-Cold-Weather-Plan_Accessible-main-doc.pdf.pdf

²² For further details, see: <http://www.nice.org.uk/nicemedia/live/13899/62692/62692.pdf>

²³ See: <http://www.instituteofhealthequity.org/projects/fair-society-healthy-lives-the-marmot-review>

We will of course need to monitor delivery under all of the Government's policies so that we can understand how they are supporting fuel poor households.

Section Five: Building on our current policy approaches

In the previous Section we set out how the Government's current policy package is expected to deliver a range of support to LIHC households, including many severely fuel poor households. In this Section we build on the principles set out in Section Three and discuss how our policies may need to evolve in the future to reflect our new understanding of the problem. We also examine how we will work to improve the targeting of fuel poverty policies at the households that are most in need of support.

The central pillars: energy efficiency and direct energy bill support

The Hills Review concluded that improving the thermal efficiency of homes tends to be the most cost-effective approach to making sustained reductions in energy costs and should therefore be the central pillar of any future fuel poverty strategy. However, Professor Hills also highlighted that upgrading the housing stock is inevitably a gradual process and that there is a case for direct support with energy costs – which can be achieved through energy bill subsidies like the WHD or income support. Furthermore, the analysis in Section Three showed that energy bill discounts are more cost effective than many energy efficiency and heating measures.

In Section Three, we argued that it was important to ensure that policies provide effective support to vulnerable households that are in the deepest fuel poverty. Our analysis showed that some of the main risk factors relate to larger, solid-walled properties with non-gas heating. However, Section Three also highlighted the importance of having a cost-effective policy package and revealed some of the trade-offs that are associated with some more costly measures. What this means in practice is that we should look to ensure that support is focused on the types of measures that are on the left hand side of the FP-MACC so that we can make the best use of the resources that are available.

DECC's policy package is in a period of transition. As set out in the previous Section, some of the policies that will impact on fuel poor households are still in development whilst other policies are only recently into the operation and evaluation phase. We are constantly building on the experience and evaluation of past programmes and closely monitoring roll out of the new to ensure that the delivery is in line with the policy intent. We will also take opportunities to adapt and finesse where possible to maximise impact.

The Green Deal and ECO, the drive for community and domestic energy solutions, particularly for heat generation, and support for action by consumers through collective switching and purchasing schemes, bring novel approaches to the delivery of climate and energy policies, with a wider and more varied set of delivery partners playing their part. This presents both a challenge and an opportunity in our work to tackle fuel poverty. The challenge is to ensure that those experiencing the most severe problem are able to benefit from support and not overlooked or left behind. The opportunity is that a more diverse delivery landscape may help overcome some of the barriers in finding the fuel poor and providing them with appropriate assistance.

Section Four showed that there are a number of policies that are likely to provide cost-effective measures to fuel poor households. Furthermore, through a focus on hard to treat dwellings and

off-grid households, many of these policies are likely to provide support to severely fuel poor households. In addition, there are things that we are doing that help low-income households access the support that is available. For example, we provide a referral mechanism delivered by the Energy Saving Advice Service for support under Affordable Warmth. This helps the obligated energy suppliers work with eligible customers seeking support to improve the energy efficiency of their home.

Our understanding of how policies will support fuel poor households draws on a combination of previous delivery experience and our expectation of how policies will deliver. However, a more mature understanding of how policies are operating in practice is required. As such, we will need to monitor the delivery of policies over time in order to determine whether they are effectively supporting fuel poor households. Where appropriate, and considering the balance with other policy objectives, we will take action to ensure that this is the case.

In November 2012, DECC published its Energy Efficiency Strategy.²⁴ That document stated that a key priority going forward is to understand how the various energy efficiency schemes of DECC interact and work together and how we might build on them for the future. We will continue to input into this work, using our guiding principles, to ensure that the impact and interplay of policies can be understood for fuel poverty, as well for energy saving and carbon reduction.

How we expect the central pillars of our strategic approach to evolve

In the short-run, it is important to ensure that we are maximising the potential of existing schemes and policies to support priority households. Targeting delivery to ensure that this is the case will be a key priority to tackling fuel poverty in the short term. To this end, and guided by our better understanding of the problem, we will seek to:

- Optimise the current fuel poverty package given opportunities on policy timetables – looking for cost-effective opportunities to support the households that are most in need; and
- Work across Whitehall and beyond to understand whether there is cost-effective potential to support the fuel poor through wider Government action on health, housing and welfare policies to ensure that we can maximise positive impact on the fuel poor in balance with the objectives of those policies.

The role of other policy approaches

While energy efficiency and direct bill support will tend to be the key pillars of any fuel poverty strategy, there is potentially a role for other approaches. We will continue to work to understand how new and innovative policy approaches can work alongside the existing policies to support fuel poor households.

DECC is committed to helping all consumers get access to simpler and cheaper tariffs and – as was set out in Section Four – is taking forward action in legislation to ensure that this can happen. Tariff reform is not easy, particularly in an open retail energy market. Working with Ofgem, the Government is focusing on ways to improve the information that consumers have

²⁴ See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/65602/6927-energy-efficiency-strategy--the-energy-efficiency.pdf

through simpler bills, reducing the number of tariffs suppliers can offer and banning the most complex tariffs and ‘dead’ tariffs.²⁵

Tariff reform has long been considered as a way of reducing the burden of high energy costs on the fuel poor. In particular there has been interest in the introduction of rising block tariffs. This is a pricing structure where the unit cost of energy increases in step with increased levels of consumption.²⁶ On the face of it, rising block tariffs offer low-use consumers the prospect of lower energy costs as a greater share of their consumption is likely to be on the low-rate part of the tariff.

However, we know that the fuel poor are by definition already facing high costs of energy because of the poor quality of their dwellings. Such households may already be making trade-offs in their use of energy and expenditure in other areas. Assuming this is the case, then moving to a system of rising block tariffs would in fact tend to increase fuel poverty gaps, therefore exacerbating the fuel poverty problem. This problem will be even more acute for the severely fuel poor.

This highlights something of a tension. There are some interventions that will reduce household actual energy costs whilst at the same time increasing modelled energy costs, reflecting the fact that higher prices for higher consumption make it more difficult for that household to maintain an adequate standard of heating. The definition of fuel poverty is rightly based on needs rather than actual usage. As such, fuel poverty policies have tended to focus on interventions that reduce notional energy costs, which mean that there has been a limited focus on interventions that impact on household behaviours. However, it may be that there are some behavioural interventions which offer the prospect of lower energy bills for the fuel poor without exacerbating their fuel poverty. This could include advice on the efficient use of energy. Through the National Energy Efficiency Data Framework (NEED), we are able to understand more about household energy use.²⁷ We will continue our work in this area to better understand actual household energy usage and behaviours in order to determine where there may be scope for cost-effective policy interventions.

On 6 June, DECC published a Call for Evidence on Community Energy²⁸ seeking to explore the potential for energy projects that are based in communities or involve communities of people, to contribute across the range of policy objectives. This will inform a Community Energy Strategy to be published in the autumn. As the Call for Evidence sets out, community energy projects can take many forms. The very fact that they are designed to meet the needs of specific local areas or specific sets of people suggests potential to tackle the main drivers of fuel poverty – poor quality housing, high energy prices and low incomes. As we have seen with the Local Authority Fuel Poverty Competition there are circumstances where locally-led, area-based approaches can effectively identify and assist the fuel poor in improving the thermal efficiency of their homes. Similarly the Cheaper Energy Together competition has sought to demonstrate that projects bringing people together to combine their purchasing power by collective switching can not only include the vulnerable and the fuel poor, but also target and

²⁵ Dead tariffs are those that are no longer available to new customers. They can be kept only if the deal is cheaper than those available to new customers.

²⁶ A rising block tariff charges a low initial unit rate up to a given level of consumption before switching to a higher rate. This is the reverse of most current tariffs – which charge a higher initial rate.

²⁷ See: <https://www.gov.uk/government/organisations/departments-of-energy-climate-change/series/national-energy-efficiency-data-need-framework>

²⁸ See: <https://www.gov.uk/government/consultations/community-energy-call-for-evidence>

empower them specifically to find a better deal for their energy. We will ensure that the developing fuel poverty evidence base and learning we take from the Local Authority competitions are fed into development of the Community Energy Strategy.

Better targeting of support

Targeting fuel poor households for support is complex because knowing whether a household is fuel poor requires us to know detailed information about both household energy costs and income. This holds true under the old definition and the new one. Typically, targeting has been through either benefit proxies or area-based criteria – and we currently use both within fuel poverty policies. These approaches have their strengths and limitations.

It is recognised that delivering energy efficiency projects street-by-street across whole communities has many benefits. These include economies of scale, increased demand driven by seeing the work being carried out and the resulting benefits from and opportunities to link with other planned works. The Home Energy Conservation Association (HECA) guidance notes that any strategic area-based street-by-street roll out of energy efficiency measures, based on what could best be achieved locally, could therefore add significant value. However, because the clustering of fuel poverty in a specific area is uncommon, this approach will tend to result in many non-fuel poor households getting support (an illustration of the challenges associated with area-based targeting is set out in **Box 7**). Targeting specific households – typically done using benefit proxies – can be a more efficient means for targeting support. This is because fewer non-fuel poor households are likely to get support. At the same time, it can make the process of locating households more complex and costly.

Whether we are talking about an approach using proxies or through area-based schemes, it is clear that there is room for improvement in the way that we target support at fuel poor households. There are a number of areas that we would like to explore further: (1) using the fuel poverty indicator; (2) data-sharing; and (3) advocacy.

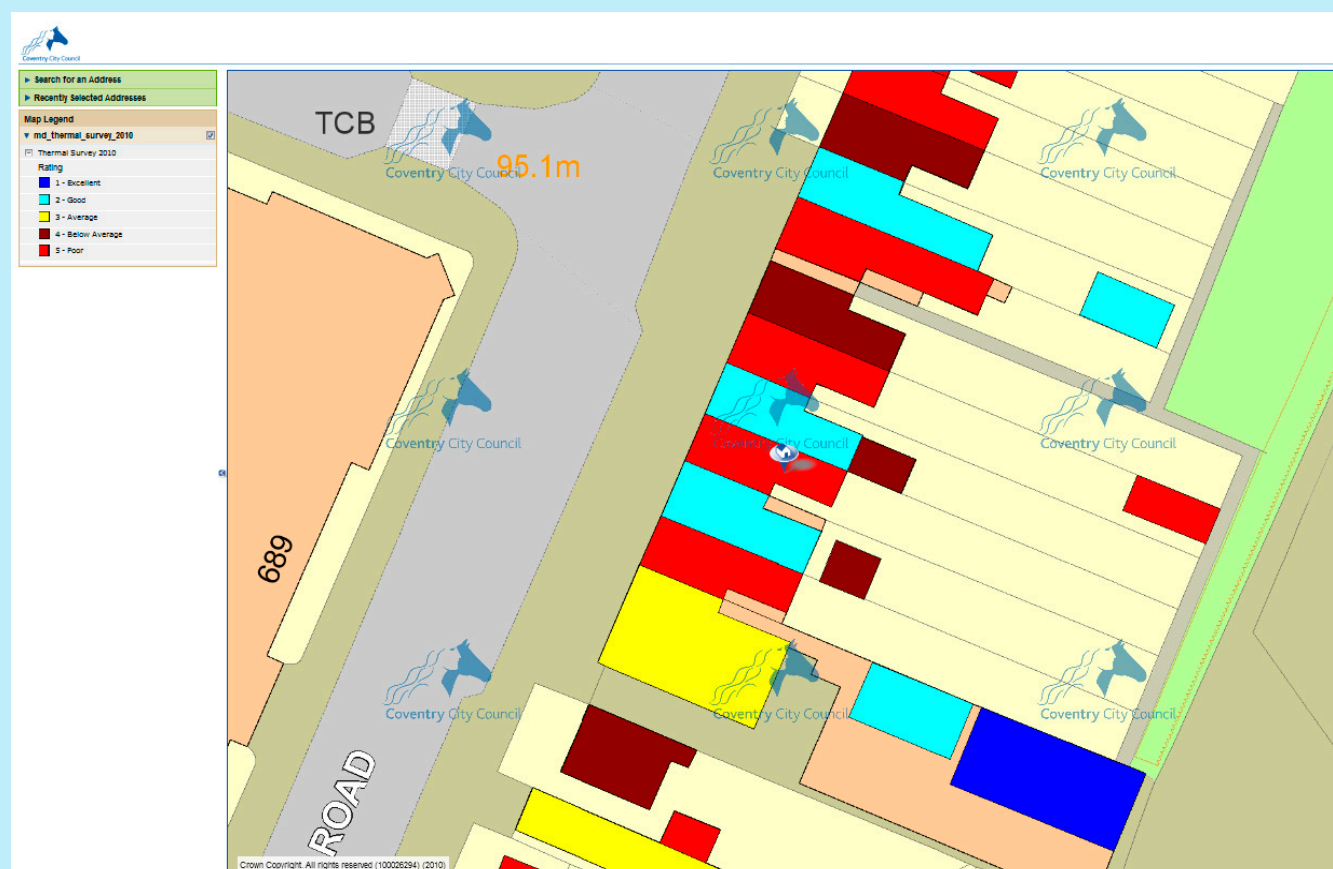
Using the fuel poverty indicator

Building on the analysis presented in Section Three on the types of household characteristics that increase the likelihood of a household being fuel poor, we have begun work to investigate whether it could be possible to use the new indicator to help with identification and targeting of policies. For example, it may be possible to construct a tool that could be used by those working on the front-line to identify households that are at a high risk of being fuel poor or in severe fuel poverty. **Box 8** illustrates how we can translate the analysis of the characteristics of fuel poor households into a practical targeting tool.

At a minimum, this sort of tool could be used to help identify households that are at risk of fuel poverty. A more ambitious approach would be to try to link policy eligibility to the likelihood of being fuel poor under the LIHC indicator. It might be possible, for example, to tie eligibility to those households with an estimated probability of being fuel poor that is above a certain threshold.

Box 7: Area-based targeting

The figure below is taken from the thermal map produced by Coventry City Council (which helps residents understand how well insulated their homes are).²⁹ The map shows the properties where there is significant heat loss through the roof, which helps to give a sense of how well insulated a property is (although could equally be showing where properties are empty or under-heated). What the map shows for this particular street is that there are a range of efficiencies, with some relatively efficient dwellings next-door to other relatively inefficient dwellings. To understand whether any of these homes are fuel poor, we need to overlay this kind of knowledge with income and price considerations. Clearly this is challenging given the data requirements. But given limits on total available resources, assisting all the energy inefficient homes regardless of fuel poverty status means not providing support to households elsewhere which could be fuel poor or severely fuel poor.



This could offer a more efficient means of targeting compared to current approaches, with more of the available resources going to the households that need them the most. However, this sort of an approach would require a delivery agent to know more information about the household (compared to current area-based or benefit-based target), which would create new delivery challenges. For example, it could be harder to help households understand if they are eligible

²⁹ See: <http://www.coventry.gov.uk/>

and there could be compliance and auditing issues. We will continue to work to understand the scope for improved targeting using the new definition.

Box 8: Using LIHC to improve targeting

In building our evidence base we have developed a model to estimate the impact that particular household and dwelling characteristics have on the likelihood of a given household being defined as fuel poor under the new indicator. The model uses logistic regressions to isolate the extent to which different factors change the probability of households living in fuel poverty. More information on this analysis is set out in the analytical annex that accompanies this document.

The ability to predict the likelihood of being fuel poor in this way opens up the possibility of constructing a tool that could help identify fuel poor households more easily. For example, using a questionnaire with just a few basic questions it would be possible to build a picture of the household circumstances and to calculate the probability of a household being fuel poor.

For example, a couple with no children, one member working in an 'routine' job (based on the National Statistical Socio Economic Classifications - see the analytical annex for more details), on means-tested benefits, paying for energy through standard credit, renting a large semi-detached house built in the 1950s, with no loft insulation and a 'standard' boiler, has a 65 per cent chance of being fuel poor.

Whilst this will still result in a degree of uncertainty about whether the household is fuel poor, it potentially offers the prospect of improved targeting compared to current methods.

Data-sharing

The development of systems to match and share data between different parties has played a major role in delivery of policy to support the fuel poor in recent years, simplifying the customer journey for many and reducing costs of delivering support to vulnerable households.

As mentioned in Section Four, data matching has been used in the current WHD scheme to identify a core group of Pension Credit customers who are eligible to receive a discount on their electricity bill. Under arrangements set out in regulation, names and addresses of Pension Credit customers held by DWP are matched with customer information held by the major energy suppliers. Around 75 per cent of the Pension Credit core group - over one million households per annum - are identified in this way and receive an automatic rebate on their electricity bill without needing to make a claim. The remaining core group customers are invited to call a government funded helpline to check their eligibility. Around 25 per cent of these customers claim successfully.

A variant of this method underpins the referrals system for the Green Deal and ECO (and provides verification of eligibility for the Broader Group element of the WHD). Under a voluntary agreement the Energy Savings Advice Service (ESAS) filter customers who may be eligible for Affordable Warmth towards a verified referral system. With consent from the customer, ESAS can share customer details with DWP who match the data against their records with a view to confirming eligibility. DWP then confirm with ESAS (or energy suppliers in the case of the

Warm Home Discount Broader Group customers) whether a customer does or does not satisfy one of the required eligibility criteria. Eligible and unmatched customers are then contacted by the supplier they have chosen who will take forward a property assessment and offer a minimum package of assistance. Ineligible customers will be contacted by ESAS and advised about other options available to them.

In a future where our strategic approach for tackling fuel poverty is driven by a principle of prioritisation, we can expect data matching to continue to be important. The success of regulated data matching for the WHD Core Group and the voluntary agreement underpinning the Affordable Warmth referrals system highlights the key role that data plays in identifying the fuel poor and targeting support at them.

We will consider the scope for increasing the use of automated data matching. Alongside this we will consider the role of data sharing in the developing, more diffuse delivery landscape. However, there are a number of important factors to consider ahead of making greater use of data-sharing in delivery. These include:

- the need for new primary legislation in order to create a ‘statutory gateway’ for the sharing of personal data;
- changes to the benefits regime which may impact on how well benefit receipt remains a valid proxy for fuel poverty;
- the greater fluidity of the working age caseload compared to that of pensioners who are more likely to remain on low-income benefits;
- the requirement for a guaranteed funding stream to ensure that all matched households can receive a guaranteed benefit; and
- the impact of access to wider ‘passported’ support on incentives to work and save.

Naturally, we will need to take a proportionate approach and look to balance the potential improvements to targeting against the likely costs.

Advocacy

As we set out in Section Four, we recognise that some households require more support and guidance to help them engage effectively with energy markets and to secure support to make their home more energy efficient, particularly over the coming winter as Ofgem’s Retail Market Review tariffs and information measures are first introduced.

The Government has previously put forward proposals on the idea of establishing a co-ordinated network of voluntary organisations and community groups that could work proactively with trained energy advisers to support vulnerable consumers to engage in the energy market and in response to these proposals has recently announced the creation of and provided funding of £900,000 for the ‘Big Energy Saving Network’.³⁰

³⁰ See:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/200051/gov_response_ensuring_better_deal_for_consumers.pdf

We will work with members of the Network in the coming months to fully develop the structure, aims and requirements to ensure the Network is fully effective. We are determined however, that this Network will focus on delivery and will therefore quickly develop the capability to help consumers take action on the tariffs, switching and energy efficiency options available to them.

This network will look to build on the work of existing support networks, but will seek to provide a clearer focus on helping vulnerable consumers take action by:

- Developing and agreeing key messages to help vulnerable consumers reduce their costs;
- Developing the capability of advisors through training on tariffs, switching and energy efficiency programmes;
- Identifying best practice in targeting and delivering outreach events to vulnerable consumers;

We will work to evaluate the effectiveness of the Network and develop options for future advice provision, taking into account the impact of Ofgem's Retail Market review tariffs and information reforms.

Conclusion: our workplan

This Section has set out how we intend to use the principles that we set out in Section Three to shape the fuel poverty policy package in future. Alongside this we will continue to work to build our understanding of the problem. In this way we will be able to develop a more effective and efficient policy package in future.

Specifically, the key short-term priorities for the Fuel Poverty Programme will be:

- To maximise learning from delivery and evaluation of the DECC policy suite – including WHD, Green Deal & ECO, the Local Authority Competition, Cheaper Energy Together and the emerging Heat Strategy – to ensure that where possible we are taking every opportunity to support fuel poor households with cost effective policies, particularly for those households that are at risk of severe fuel poverty;
- To develop our understanding of who is fuel poor and the scope for improved targeting - as part of this we will work to develop new targeting tools based on the new indicator in order to see whether it can help us to target more effectively than under current approaches;
- To ensure closer cross-Whitehall working – meeting our ambitions in this area means drawing on expertise across Whitehall. As part of our work to develop our strategic approach, DECC will set up and coordinate a cross-Whitehall working group. The purpose of the group is to share knowledge and information on issues relating to fuel poverty and where possible to align policy approaches;
- Continue to build the evidence base to support better policy making – in particular, we will work to develop the evidence based on the health impacts of fuel poverty and on actual household behaviours; and

- Work to refine the fuel poverty methodology – where the latest evidence (e.g. from the Energy Follow-Up Survey) suggests that we should revisit some of the assumptions we will work with the Fuel Poverty Methodology Group to consider appropriate changes.

Section Six: The legislative framework

A new fuel poverty target

In Section Two, we set out our belief that the new way of measuring the problem requires a different legislative framework and a new form of legislative target. We propose to focus our efforts primarily on ensuring that those households who are fuel poor (as defined by the LIHC indicator) attain a certain standard of energy efficiency in their homes. We could measure progress against either an average or a minimum standard for energy efficiency for fuel poor households.

This type of framework for action will encourage a focus on the households that are at the heart of the fuel poverty problem and will incentivise continuous action to improve the energy efficiency of their homes, which is one of the key factors that drives fuel poverty.

We believe there is real merit in giving a strong degree of statutory backing to a fuel poverty target and our proposals reflect this. However, we believe the use of primary legislation to establish a target in an area as complex and multi-faceted as fuel poverty is not appropriate. Therefore we have proposed our new fuel poverty target should be established through secondary legislation. This is reflected in amendments the Government has tabled to the Energy Bill currently before Parliament. Importantly, it will remain a requirement, established in primary legislation, for the Secretary of State to adopt a strategy for meeting the new target.

At this stage we are not making specific proposals for those elements of the target that will be set through secondary legislation. We will make detailed proposals for consultation in due course on the form, date and level of target.

How will energy efficiency be measured?

The main way that the energy efficiency of a home is measured is using the Standard Assessment Procedure (SAP) which assesses the energy performance of buildings. Specifically SAP is an indicator of the amount of energy a dwelling consumes in delivering a defined level of comfort based on standard occupancy conditions. SAP is used to underpin the delivery of a number of energy and environmental programmes, including the assessments that are undertaken as part of the Green Deal. It is worth noting that the SAP methodology is updated on a regular basis following a comprehensive review and so we would look to use the latest methodology available, when considering progress.

Whilst we believe that energy efficiency will always be at the heart of the fuel poverty strategy, we also know that there are a wide range of other cost-effective policies which can help people either to improve the standard of their home in the long term, or to manage their bills and offer immediate help with energy bills. It is important that the choice of target as far as possible also reflects the progress that is made through the full range of policies. Further discussion of how we propose to measure energy efficiency is set out in the analytical annex.

Supplementary indicators

It is also clear that a single indicator is not sufficient to gain an understanding of this complex problem and that in order to give a full picture of what is happening in fuel poverty we need to measure a number of key indicators.

In addition to the headcount and fuel poverty gap generated by the LIHC indicator and the energy efficiency of fuel poor households, we will also monitor the number of fuel poor households without insulation, those households without efficient heating systems (or lacking a heating system altogether) and the number of fuel poor households who live in the most energy inefficient properties e.g. E, F and G rated properties.

The date for achieving our new target

The fuel poverty issue is serious and widespread and our ambition to tackle the structural issues that lie at the heart of the problem is not one which can be achieved in the short run. We need to be realistic.

It could make sense for any new target date to be aligned with the actions we are taking more widely as a Government. In particular, action on domestic energy efficiency is a core part of the way in which we will be meeting our carbon goals. We will continue to consider the merits of this and any other approaches.

The level of ambition

As noted earlier in the document, the proposals in relation to the target and target date are necessarily indicative as they are subject to decisions that are yet to be taken by Parliament,. Once the Energy Bill has completed its passage through Parliament, we can turn to the question of the level of ambition to be set by any new target. In doing so, we should consider the following principles:

- Driving up standards for the fuel poor: we will work towards improving the energy efficiency of fuel poor households and, as far as possible, will ensure that the fuel poor are not left behind other households;
- Cost effective opportunities: the level of ambition for the target should reflect the opportunities that exist to support fuel poor households through cost-effective actions. Both through fuel poverty policies and through wider Government policies where cost effective opportunities exist to support fuel poverty alongside other objectives; and
- A concern for the most vulnerable: the level of ambition should reflect that there are additional benefits – particularly in terms of improved health outcomes – associated with taking action to support vulnerable fuel poor households.

Using these principles we will look to set a new target level which will ensure that we improve the experience of those living in the poorest quality housing in line with our wider objectives of saving energy, promoting growth and decarbonising the housing sector.

Engagement

We will work closely with stakeholders in developing a new strategy. The role of the Fuel Poverty Advisory Group (FPAG) will continue to be key.³¹ As we continue to develop our new approach to fuel poverty, we will consider whether there is a need to enhance the role and remit of the group with a view to presenting proposals, as needed, as part of the final strategy.

Conclusion: next steps

This Section has set out our intentions in relation to the legislative framework. As they are subject to decisions that are yet to be taken by Parliament, as part of its consideration of the current Energy Bill, we will need to wait for these to decisions to be taken before we can set out final conclusions on these proposals.

As required under the WHECA, revisions to the fuel poverty strategy will be subject to public consultation. The present document is not a consultative document. We nevertheless welcome comments on its contents. Anyone wishing to provide comments is invited to send them by e-mail or in writing to:

Fuel Poverty Team
3 Whitehall Place
London SW1A 2AW
FuelPovertyFeedback@decc.gsi.gov.uk

³¹ For the latest FPAG report see: <https://www.gov.uk/government/publications/fuel-poverty-advisory-group-tenth-annual-report-2011>

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3 Whitehall Place
London SW1A 2AW
www.decc.gov.uk
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