

# **Government Response to the Efra Select Committee Inquiry: Energy efficiency and fuel poverty**

**October 2009**





# **Government Response to the Efra Select Committee Inquiry: Energy efficiency and fuel poverty**

**Presented to Parliament by the Secretary of State for  
Energy and Climate Change**

**By Command of Her Majesty**

**October 2009**

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## Overview:

The Government is grateful to the Environment, Food and Rural Affairs Committee for its Third Report of Session 2008-09 containing its conclusions and recommendations, particularly with regard to the impact of fuel price rises on fuel poverty levels and the recognition of the contribution of a wide range of the Government's measures to address the three main drivers of fuel poverty; household energy efficiency, household incomes and energy prices.

This document sets out the Government's response to the Committee's examination of energy efficiency and fuel poverty. Due to the wide ranging nature of these policy areas, this response has been compiled by the Department of Energy and Climate Change (DECC) with important contributions from the Department for Work and Pensions (DWP), the Department for Communities and Local Government (CLG) and Ofgem. We have carefully considered all of the recommendations made by the Committee.

Tackling fuel poverty is a priority for the Government and it is under a statutory duty in England to end fuel poverty, as far as reasonably practicable, in vulnerable households by 2010, and in all households by 2016

One of the key drivers of the recent increase in fuel poverty has been rising energy bills due to higher fossil fuel prices: energy bills increased, on average, by 16% every year between 2004 and 2008. These significant price increases make the fuel poverty targets even more challenging.

While the overall trend of prices through this period has been upward, it is important that when there are periodic sustained falls in wholesale energy costs to suppliers, consumers see the benefits. The Government has asked Ofgem to publish quarterly reports in order to improve clarity around price movements, and Ofgem has instructed suppliers to improve their communications in this area.

Progress has been made in addressing fuel poverty since the Committee took evidence for this inquiry in January 2009, when the Government announced a review of its fuel poverty policies. The review is being undertaken to examine whether existing measures to tackle fuel poverty could be made more effective, and whether new policies should be introduced to help the Government make further progress towards its goals.

The initial findings of the review are integrated in the UK's Low Carbon Transition Plan, published on 15 July 2009<sup>1</sup>. The Plan sets out how DECC will lead the transition for the UK to become a low carbon country. The Transition Plan to 2020 sets out the Government's plan: to cut emissions from homes by 28% against 1990 levels and by 29% on 2008 levels; to improve support to the most vulnerable; and to secure the UK's gas supplies. Where relevant, details of the Transition Plan and related policy developments are set out in this response to the Committee's recommendations.

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<sup>1</sup> [http://www.decc.gov.uk/en/content/cms/publications/lc\\_trans\\_plan/lc\\_trans\\_plan.aspx](http://www.decc.gov.uk/en/content/cms/publications/lc_trans_plan/lc_trans_plan.aspx)

## **Response to Conclusions and Recommendations:**

### **Impact of price rises on fuel poverty levels**

- 1. Despite a clear statutory target for the Government to eradicate fuel poverty, as far as reasonably practicable, in vulnerable households by 2010 and in all households by 2016, we are witnessing the opposite, with a sustained increase in the numbers of those experiencing fuel poverty. (Paragraph 19)**
- 2. With the 2010 target date less than 12 months away, we agree with the Department of Energy and Climate Change that this target is likely to be missed. The Government should now explain why it did not review its fuel poverty policies earlier in the light of the upward trend in the number of fuel poor which began in 2005. (Paragraph 20)**

At regular intervals, the Government has carefully considered the measures required to seek to tackle fuel poverty; their technological and practical viability; and the costs of taking such measures. The Government looks at how it can improve existing – and develop new – policies and initiatives to tackle fuel poverty. For example, in the past 12 months alone, the Government has made changes to the Warm Front Scheme and to the Carbon Emissions Reduction Target (CERT), as well as developing the Community Energy Saving Programme (CESP).

Previously, work has been undertaken to examine the policy measures and resources which could be undertaken to tackle fuel poverty. This work has been carried out over a period of time alongside the development of documents including the Energy Review and Energy White Paper.

To monitor progress in meeting the fuel poverty targets, the Government publishes annual progress reports setting out the number of households in fuel poverty, the factors that affect fuel poverty and the measures that have been taken to reduce fuel poverty. In compiling these reports, DECC considers the recommendations made in the annual reports prepared by the Fuel Poverty Advisory Group and includes contributions from other government departments, devolved administrations and key stakeholders on progress in tackling fuel poverty within their respective schemes and localities. The annual progress reports also set out the steps planned to tackle fuel poverty in the next 12 months.

Despite significant action, rising energy prices have had a major detrimental impact on the number of households in fuel poverty<sup>2</sup>. As prices increase, energy efficiency measures that were previously sufficient to remove a household from fuel poverty might no longer be capable of doing so. Also, under the fuel poverty

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<sup>2</sup> The projected figures for 2008 suggest that the total number of households living in fuel poverty in England will have risen to just over 3.5 million households

definition<sup>3</sup>, income needs to increase substantially more in absolute terms than the energy price rises to remove a household from fuel poverty.

The Government has taken a number of steps to mitigate the effects of energy price rises since 2005 specific examples include

## 2005

- New phase of Warm Front implemented with a budget of over £860 million for 2005-2008. Measures included mainstream insulation, gas and oil central heating, and provision for alternative technology proposals to be evaluated as part of the Scheme
- Under Energy Efficiency Commitment 2, suppliers were required to focus at least 50% of their energy savings on a Priority Group of low income customers

## 2006

- Housing Health and Safety Rating System and Houses in Multiple Occupation licensing provisions of the Housing Act 2004 came into operation. Statutory Guidance issued by the Department for Communities and Local Government gave advice to local authorities on the contribution that these powers could make to fuel poverty and energy efficiency strategies

## 2007

- Department for Environment, Food and Rural Affairs allocated the Warm Front Scheme just over £800 million for the three year period 2008-2011, following the Government's Comprehensive Spending Review.
- The Community Energy Efficiency Fund (CEEF) was launched in June 2007, with applicants invited to apply for support via a competitive process for the allocation of the £6.3m funding available in England with 49 projects going ahead
- The Government announced a third three year supplier obligation phase for CERT, at double the ambition of the previous phase

## 2008

- The Government announced it would make a payment of £100 to households with someone aged over 80, and £50 to households with someone aged over 60 alongside the Winter Fuel Payment for the year 2008-09
- Warm Front received an additional £74 million funding as announced in the Home Energy Saving Programme (HESP) and a further £100 million was allocated in the Chancellor's Pre-Budget Report in November

<sup>3</sup> The Fuel Poverty Strategy sets out what was said to be the most widely accepted definition of a fuel poor household, being one that needs to spend more than 10% of its income on fuel to maintain a satisfactory heating regime (usually 21 degrees for the main living area, and 18 degrees for other occupied rooms)

- Following Budget 2008, the Government secured the individual agreement of the six largest energy suppliers to increase their collective spend on social assistance to £100 million in 2008-09, £125 million in 2009-10 and reaching £150 million by 2010/11

## **2009**

Government has increased its efforts, including those set out in the UK's Low Carbon Transition Plan, published on 15 July. For example

- Major improvements to the Warm Front delivery contract to provide greater competition and better value for money including an increase to the grant limits for eligible households under Warm Front. This increase to £3,500 or £6,000 where oil or alternative technologies are recommended
- The launch of the CESP designed to exclusively reach areas of low income, where residents have a higher than average propensity to be in fuel poverty. This new £350 million programme will be delivered through a partnership approach, on a 'whole house', street-by-street basis
- The CERT has been changed so that, from August 2009, an estimated £1.9 billion will be directed at the low income and elderly priority groups. We are also looking at ways to ensure more help for the most vulnerable within our priority group for the CERT extension, until the end of 2012
- Proposal to bring forward new legislation to place social price support on a statutory footing, once the voluntary agreement ends in March 2011
- The Government announced it would make a payment of £100 to households with someone aged over 80, and £50 to households with someone aged over 60, alongside the Winter Fuel Payment for the year 2009-10

## **Effectiveness of targeting assistance**

3. Those charged with tackling fuel poverty will be more effective if they have access to data on a range of variables, including energy efficiency levels of homes and household incomes and fuel costs. However data does not appear to be fully available to all those who require it. We recognise the sensitivities about the use of personal data and support the need for stringent safeguards and clear protocols on its use. However the current position is unnecessarily complicated. Coordinated action by relevant Government departments and agencies could remove some of the barriers quickly, given sufficient priority and political will. DECC should undertake, within 6 months, a comprehensive survey of data needs and current data access arrangements of agencies in both the public and private sectors working on fuel poverty issues. On the basis of this it should put in place within 12 months improvements to enable effective data sharing arrangements between and within agencies such as local councils, Government departments and energy supply companies. (Paragraph 25)



4. DECC should assess the potential for cost savings from the reduced need to collect and share data on individuals under an area-based approach, while recognising that rolling out such an approach may require improved area profiling to ensure that assistance is prioritised for those households most in need. In addition the Government should urgently evaluate the benefits that could arise from the widespread use of infrared technology which can be quickly used to identify poorly insulated, high energy using properties on a street by street basis. (Paragraph 26)

The Committee is right to highlight the potential value of data sharing arrangements between agencies to tackle fuel poverty. In order to improve access to data in the context of fuel poverty, work is already underway within and between departments to develop the means of better targeting.

- The Department for Communities and Local Government (CLG) will be undertaking a consultation later this year on extending access to Energy Performance Certificate information to help target energy efficiency offers and support to householders.
- The Committee may be aware that the Department for Work and Pensions (DWP) and DECC have been working with the big six energy suppliers to explore how an effective data-sharing mechanism could be achieved to help them target the social assistance programmes they offer. If this project is successful, it could potentially form part of a mandated social price offering of the future. To that end, the DWP took powers in the Pensions Act 2008 to make regulations to permit shared data with energy suppliers, so that the suppliers can identify and help the poorest pensioners amongst their customers. It is envisaged that the suppliers will be able to use this data to offer energy efficiency measures to the same households thereby offering a holistic approach to helping vulnerable customers. We want to use this pilot to assess any potential risks and ensure we have the right safeguards in place before we consider wider data-sharing.

More generally, we agree with the Committee that public services cannot be delivered effectively, efficiently and safely unless services work in partnership with others and this includes sharing personal data where it is right and proportionate to do so. The Government is fully aware of the potential benefits of data sharing, which is why it is taking these steps to improve access to data. However, it is also alert to the risks, particularly in ensuring proportionate sharing of data to meet important data protection and human rights tests. It therefore believes that taking a staged approach seems an appropriate way of mitigating these serious risks.

The Committee may be aware that the Coroners and Justice Bill, introduced to Parliament in January 2009, initially contained a new statutory fast-track procedure for instances when there is a genuine case for removing or modifying an existing legal barrier to data sharing. Such a procedure was recommended by Richard Thomas, the Information Commissioner and Mark Walport, Director of the Wellcome Trust in their independent Data Sharing Review. The report was

commissioned by the Prime Minister and the Secretary of State for Justice and published in July 2008<sup>4</sup>.

The intention behind the provision was to deliver improved public services through the kinds of inter- and intra- agency sharing envisaged by the Committee. However, as the Committee may be aware, the scope of the power prompted concerns that the power was open to misuse. Whilst that was never the Government's intention, the Justice Secretary removed the clause from the Bill in view of these concerns. The Government is considering further the provisions and, in doing so, will take account of the issues raised by Members of Parliament and interested parties.

## **Pre-payment meters**

5. **Ofgem has finally conceded that customers, such as pre-payment meter customers and those who cannot benefit from preferential tariffs attached to certain payment methods or dual fuel deals, have not benefited from competition as much as other customers. (Paragraph 28)**
6. **At this stage is not yet possible to judge the full impact of the remedial measures proposed following Ofgem's probe but the regulator must be pro-active and rigorous in protecting customers' interests, particularly those on low incomes. We recommend that the new Energy and Climate Change Committee keeps Ofgem's performance in delivering an effective regulatory regime under review and that DECC reports annually to Parliament on what has been achieved. (Paragraph 29)**

The Government firmly believes that the regulator should be active in protecting consumers and their interests, whether through the promotion of effective competition or through other, more direct, interventions. We have welcomed the measures developed following Ofgem's probe.

In response to Ofgem's initial report, energy suppliers amended some pricing structures. We have welcomed the measures which have been developed by Ofgem subsequently through consultations with all interested parties, including those to prevent unfair discrimination relating to payment methods. The new licence conditions will improve consumer protection in future in this and in a number of other respects, including improving consumers' understanding of their energy use and costs, reforming debt-blocking processes, and making switching energy suppliers a safer process.

The Government keeps the effectiveness of the overall regulatory framework under review, amending it where necessary. To this end the Government has recently stated its intention to clarify the remit of the regulator in relation to consumer protection at the earliest legislative opportunity. The Government has also proposed to give the regulator some specific additional powers in relation to consumer protection.

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4 . <http://www.justice.gov.uk/reviews/datasharing-intro.htm>

## Social tariffs

7. Unless a tariff is the best available 'enduring tariff' it cannot be said to be a true social tariff and should not be promoted as such. We are pleased that Ofgem has moved to clarify guidance to energy companies on this. Nevertheless there remains a need for wider dissemination of information to customers on the availability of, and eligibility criteria for, social tariffs. We recommend that Ofgem requires energy supply companies to publicise criteria determining who is eligible for their social tariff. (Paragraph 34)

Suppliers agreed at the Fuel Poverty Summit organised by Ofgem in April 2008, to provide greater visibility of their offers on social programmes. Subsequently Ofgem sought advice from key consumer organisations regarding what information suppliers should include on their websites. Following this process, all suppliers now have relevant information on their websites about their social tariffs and programmes. Consumers can also call the Home Heat Helpline which is jointly funded by the big six suppliers to find out about their eligibility for social tariffs as well as other support available from suppliers and Government.

Under the voluntary agreements entered into with Government, energy suppliers committed to spend collectively £100m in 2008-09 rising to £125m in 2009-10 and £150m by 2010-11 on social programmes. Ofgem published a report on suppliers' spend during the first year of the voluntary agreement on 18 August 2009. This showed that suppliers collectively spent £157.3m during 2008-09, exceeding their agreed spend with Government during this period by more than 50%, and that as at 31 March 2009, over one million customer accounts were benefiting from a social tariff. This report also included details of the eligibility criteria for each social tariff. Ofgem will continue to report annually on supplier's social spend for the duration of the voluntary agreement.

The social price support available under the current voluntary agreement with energy suppliers has already made a real difference to the lives of a large number of vulnerable households. But the agreement comes to an end in March 2011. The Government has decided to build on the success of the voluntary agreement and will therefore bring forward new legislation at the earliest opportunity with the aim of placing social price support on a statutory footing when the current voluntary agreement ends in March 2011. As part of this new statutory framework, the Government will ensure there is an increase in the resources available and give suppliers greater guidance and direction on the types of households eligible for future support.

The Government will continue to develop this policy over the coming months, engaging with interested parties and would expect to consult on the detailed arrangements of the scheme in 2010. Subject to further policy development, the Government is minded to focus a large part of the additional resources on those older pensioner households on the lowest incomes. They are at greatest risk of excess winter death and tend to have a high incidence of fuel poverty.

## **Rising block tariffs**

- 8. We welcome Ofgem's work on rising block tariffs and look forward to its conclusions as to whether new forms of tariff have the potential to incentivise customers to reduce their energy usage while not adversely affecting the fuel poor. (Paragraph 38)**

While there are many potential advantages of rising block tariffs, as the Committee highlights, there are also potential disadvantages which should be taken into account when considering their practical application, in particular their impact on fuel poor households.

The potential for rising block tariffs to have a positive impact on the number of fuel poor households depends on the correlation between fuel poverty and low energy use. However, fuel poor households often tend to have higher energy needs as a consequence of living in less energy efficient homes, using less efficient heating systems to heat their homes, and spending a greater amount of time in the home. Hence the introduction of rising block tariffs could be detrimental and potentially see an increase in the number of households in fuel poverty.

Ultimately, more research is required to gain a better understanding of all the potential advantages and disadvantages of rising block tariffs, particularly with respect to their impacts on fuel poor and vulnerable households. The Government also welcomes Ofgem's work in this area. It is also very interested in the work of the Climate Change Committee, which will include its research into the impacts of rising block tariffs on fuel poverty in its first annual report, to be published in October.

## **Winter Fuel Payment (WFP)**

- 9. Improved targeting of the Winter Fuel Payment is essential to redirect resources to where they are needed most. The Government should make the Winter Fuel Payment taxable and end its payment to those subject to higher rate tax. This would provide around £250 million per annum which could be used to provide a revenue stream to bring forward a programme of energy efficiency improvements for fuel poor households and other households with, for example, disabled people who have disproportionately high personal energy needs. Faster progress in improving energy efficiency would reduce pressures to increase the WFP, thus making further savings in the long term. (Paragraph 51)**

WFPs provide a simply administered way to guarantee older people receive extra income during the winter months when they are particularly vulnerable to the effects of cold. The Government aims to reassure older householders they can afford to heat their homes in winter. The payment is made as a lump sum, usually before Christmas, to ensure that money is available when fuel bills arrive. To tax this payment would add an extra level of complexity and bureaucracy for both individuals and Government. DWP would be unable to

tax at source and the individual would need to establish their tax liability with HMRC.

There are measures already in place to target financial help to disabled people. Disability Living Allowance, Attendance Allowance and the disability premiums in the income related benefits have a substantially higher annual value than the WFP and are spread over a 52 week period. Where a disability premium is paid in an income related benefit, a Cold Weather Payment is payable in periods of very cold weather. Together, these payments are designed to meet the extra costs, including heating, for disabled people.

Under the Heat and Energy Saving Strategy, we are proposing ambitious plans to transform our homes by making them more energy efficient. We have set ourselves the ambitious plan of reducing emissions from the domestic building stock to as close to zero as possible by 2050. By making such deep cuts in our emissions from buildings we can expect fuel poor and vulnerable households to benefit by reducing their demand for energy.

## Maximising benefit take-up

- 10. We welcome the provision of combined energy efficiency and benefits advice since this helps to deliver fuel poverty programmes effectively. The Government should evaluate how successful examples of this approach can be implemented throughout the UK. (Paragraph 54)**

The Government agrees that programmes combining energy efficiency and benefits advice can bring assistance for those delivering and being assisted by fuel poverty programmes. This approach has been used with a positive impact in schemes such as Warm Front and Warm Zones.

In England, every Warm Front applicant is offered a free confidential Benefit Entitlement Check to help ensure customers are claiming all the benefits that they are entitled to. During 2008/9 just over 78,000 benefit entitlement checks were completed. A new or additional eligible benefit was identified in 45% of cases resulting in an average weekly increase in household income of £31 per applicant. The value of Benefit Entitlement checks within Warm Front will continue to be evaluated.

The Government believes in a 'joined-up' or partnership-based approach to customer needs and is taking active measures to promote benefit advice to older people. For example, the Pensions, Disability and Carer's Service (PDCS) conduct around 13,000 home visits a week for vulnerable customers to ensure they are receiving all benefits and services they are entitled to, such as access to Warm Front.

DWP has also simplified the claim process to make it easier for people to claim their benefits. Claims for Housing Benefit and Council Tax Benefit made over the 'phone with Pension Credit, can now be forwarded directly to the relevant local authority without the need for a signed claim form. DWP continues to look at ways of making further improvements.

The PDCS works closely with local authorities and voluntary organisations and allow local authorities and voluntary organisations to accept claims from people aged 60 or over for Social Security benefits, or a person under age 60 for disability and carers benefits.

Initiated in 2006, the LinkAge Plus Pilots aimed to expand the principles of joined up working. The pilots, financed by DWP, were carried out in eight areas; Devon, Gateshead, Gloucestershire, Lancaster, Leeds, Nottinghamshire, Salford and Tower Hamlets. All the pilots provided advice and information to older people and delivering welfare benefit checks as part of a joined up approach to services for older people. Some of the local pilots such as Gloucestershire and Nottinghamshire offered access to Warm Front grants as part of this approach.

An evaluation found that the pilot areas have consistently demonstrated strong benefits for older people through improved access and relevant, tailored services that are popular with local people. Advice on accessing Warm Front grants has been put forward as 'best practice'. In order to embed best practice guidance DWP will be sharing evidence for joining-up services from the LinkAge Plus pilots, via a DVD with all local authorities (including county councils) and providing support at nine regional events to raise the profile of the LinkAge Plus approach by the end of March 2010. This embedding strategy and the associated activity plan will be reviewed and updated every six months starting in December 2009.

## **The Carbon Emissions Reduction Target (CERT)**

**11. CERT is intended to be a carbon emissions reduction programme rather than a vehicle for tackling fuel poverty. Although CERT targets must be delivered in part through a low income "priority group", fuel poor households account for a small proportion of this group. Although we believe the Government should fund programmes to tackle fuel poverty, fuel poor customers must also be able to benefit Energy efficiency and fuel poverty as much as better off customers from climate change mitigation programmes such as CERT. Programmes to tackle fuel poverty should be additional to, not substitutes for, climate change mitigation programmes. Energy supply companies must continue to make their schemes available to all customers. (Paragraph 64)**

CERT is proving very successful in delivering on its fundamental objectives – that is saving carbon in the household sector, delivering high numbers of low cost established energy saving measures into households and ensuring that those customers who are least able to afford energy efficiency measures are targeted through a defined Priority Group. Although these households may not necessarily be in fuel poverty, they are arguably at higher risk of being in or falling into fuel poverty, and to this end CERT delivers. Moreover, Priority Group customers have tended to benefit from a higher level of subsidies when compared to subsidies provided to better off customers. Priority Group customers often receive cavity wall and loft insulation where none exists for little or no cost. It is estimated that, because of this, the 40% Priority Group obligation receives 60% of energy supplier investment estimated at a total of



£1.9 billion in the current phase now that Government has acted to increase the overall obligation by 20%.

The Government agrees that fuel poor customers must also be able to benefit from energy efficiency measures from climate change mitigation programmes such as CERT. Going forward, the Government is keen to see Priority Group investment targeted where it is needed most. To this end it committed as part of the Low Carbon Transition Plan to an ongoing CERT obligation to December 2012; to a target no less ambitious pro rata than CERT uplifted by 20%; and to fully consider what more can be done to benefit those who are most vulnerable as a contribution to tackling fuel poverty. A consultation on the key design criteria will be published by the end of the calendar year.

## Delivery of CERT

**12. We are concerned that the current CERT scheme appears to allow measures to be counted against suppliers' targets where the actual benefits are not quantified. Simply supplying customers with energy saving light bulbs and real time display units will not achieve the maximum notional emissions savings, or cost savings to customers. The amendments to CERT must ensure that measures achieve actual reductions in energy usage and that the impact of measures such as real time display devices and advice provision are assessed by the Department of Energy and Climate Change. (Paragraph 67)**

The Government agrees with the Committee that ensuring CERT delivers actual and quantified carbon and energy savings is critical, not least as part of determining value for money and delivering against carbon budgets. The Government's decision, as part of the CERT amendments, to remove direct mail energy saving light bulbs as eligible measures from 1 January 2010 demonstrates its commitment to this end. This was in recognition of the risk of non-use from the early success in stimulating distribution of such a high number of low energy light bulbs.

The Government has included behavioural measures in CERT, namely home energy advice and real time displays, based on evidence which shows that they offer significant energy saving potential. To achieve the Government's ambitious carbon saving targets, it will be vital to empower consumers to take informed decisions on reducing their energy use. The provision of in-home and face-to-face advice should also reinforce the take up of traditional measures. However, given that these are new measures in CERT, the Government has also acted to restrict the promotion of behavioural measures up to 2% of a supplier's carbon saving target. This caps any potential risk to delivery of other measures whilst providing the opportunity to learn from any roll out and specifically from which technologies and which advice has the most energy saving impact. The Government is working with Ofgem, through the governing supplier guidance, to ensure there is statistically significant and independent monitoring of these schemes. It will reflect on these findings as part of its longer term behaviour change strategies.

## **Smart meters**

- 13. We support the Government's intention to require the energy supply industry to install smart meters. Although ultimately the consumer will fund this initiative, we believe it could help the fuel poor in helping them modify their usage patterns to their advantage. (Paragraph 74)**
- 14. However, we believe that the 2020 target is unambitious. The Government must decide urgently on the roll-out model for the programme so that the industry can move ahead as fast as possible. Customers also need to be given clear information on the costs and benefits of smart meters, including advice on how they can use them to monitor and adjust their own energy usage and costs. (Paragraph 75)**

The Government welcomes the Committee's support of its decision to mandate the installation of electricity and gas smart meters. As the Committee's report noted, the installation of smart meters will bring considerable benefits for consumers. Consumers will have more control over their own energy use and carbon emissions, which could help them save money. Smart meters will also facilitate improvements in the quality of service to customers, as well as an end to estimated bills and quicker and smoother switching between suppliers.

The roll-out of smart meters will be a major national infrastructure programme involving a visit to all homes in Great Britain (approximately 25 million). No other country in the world has yet implemented an electricity and gas smart meter roll-out on this scale. The indicative timetable of completion of work by the end of 2020 is ambitious but realistic. It reflects the substantial programme of work required to put in place the rules, systems and infrastructure needed to support smart meters. This preparation programme, for instance, will need to include market design, detailed rules for meter functionality and interoperability, industry code changes, license modifications and detailed consideration of consumer protection and data handling issues. It is important that time taken to get this preparatory work right, and that there is a sensible time window for the roll-out itself to ensure it can be properly planned, organised and executed.

The Government's consultation on electricity and gas smart meters closed in early August. The consultation covered the delivery model, comprising ownership and installation of smart meters and the related communications, as well as the functionality of smart meters and the roll out to small and medium non-domestic customers. The Government is currently considering consultation responses and will respond in due course.

## **Warm Front**

- 15. It is clear that the grant maximum for Warm Front has historically been set too low which has deterred a significant number of applicants from taking up the support available under the scheme. We therefore welcome the recent increase in the grant maxima; however the £6,000 maximum applies only to hard-to-treat properties that are off the gas grid. We recommend that it should be extended to all hard-to-treat properties**



**but this could lead to fewer people benefiting unless overall funding for Warm Front is increased. We therefore recommend that DECC reviews overall funding levels and assesses in 12 months' time whether the levels have been increased sufficiently to fully deal with the problem that puts people off Warm Front help, namely grant levels that did not cover all the costs associated with installing a new high efficiency heating system. (Paragraph 82)**

The grant maxima set in 2005 of £2,700 or £4,000 (where oil central heating is recommended) were initially adequate to pay for all of the measures required in most households. Over the course of time it became evident that these limits were no longer sufficient to cover all costs, particularly for heating work.

As a result of this, Ministers were very aware of the need to balance a limited budget, to reduce the number of households asked to contribute and a reduction in scale for those still required to contribute, against helping as many households as possible.

DECC and eaga plc, the Scheme Manager, already regularly monitor the number of applicants to the Warm Front Scheme, including those applicants who have been asked to make a contribution for a heating installation and who subsequently decide not to go ahead. It should be noted that the impact of the increased grant maxima has reduced the proportion of applicants required to make a contribution to 1 in 10 where heating measures are recommended.

The increase in grant maxima has led to an increase in the average spend per household and fewer households requested to make a contribution. This will lead to fewer households being helped within the available budget. As a result of changes to the Warm Front contract, the Scheme will benefit from efficiency savings through supply chain liberalisation and reduced installer costs from competition being introduced progressively through the year. These changes are expected to reduce the costs of Warm Front work, which will have a positive impact on the numbers of households assisted and partially offset the impact on numbers of households assisted of the increase in grant maxima.

Warm Front has been allocated significant funds over the current spending period totalling over £950 million for the period 2008-11, including increases announced in autumn 2008. Funding beyond March 2011 will be subject to the normal Government spending review process.

**16. We support the expansion of Warm Front to include the installation of low carbon technologies aimed at the difficult to reach households. The Government must ensure that the results of the small-scale pilot programmes are evaluated promptly in order to allow full national roll-out at the earliest opportunity. (Paragraph 83)**

DECC is working closely with eaga and National Energy Action to evaluate the results of small-scale pilot programmes for low carbon technologies which are currently covering solar thermal and air source heat pumps. These pilots monitor the fuel costs, if any, client experience and the cost effectiveness of these technologies taking into account social, environmental and economic factors. These pilots are used to evaluate the potential integration of these

technologies into the Warm Front Scheme and to determine if they have a place in assisting in the removal of households from fuel poverty.

If these pilots demonstrate that the technologies are effective options to remove an off-gas household from fuel poverty and reduce carbon emissions then they will be incorporated within Warm Front as soon as it is practicable to do so.

**17. We recommend that the Government considers whether the target timescales for completion of work under the Warm Front scheme should be reduced to ensure that vulnerable households are not left without heating during winter months. It should also review the scheme's performance against the target of achieving SAP 65 levels and ensure that only measures that achieve this target are deployed. Measures to meet a higher SAP rating should be encouraged. (Paragraph 85)**

Warm Front has a target to perform the survey on a property within 21 working days following application. Following this survey, and where a heating measure has been recommended, the Scheme has a target to complete work within 120 working days. In practice most heating measures are installed well within this timescale.

Whilst these potential waiting times may seem significant, Warm Front is not intended to be, and cannot act as, an emergency service. Reducing target timescales would carry significant costs, which would inevitably mean the Scheme could reach fewer vulnerable households. At the same time it is recognised that some clients may be in difficulty because their heating system has broken down, and in such cases the Scheme endeavours to install measures or perform repair work as promptly as possible.

Warm Front's main aim is to assist as many vulnerable households with a range of measures to minimise the risk of fuel poverty. To achieve this Warm Front is committed to improving the thermal efficiency of property, through both better insulation and more energy efficient heating systems. This has to be done in the most cost-efficient way possible.

DECC does set targets for assisting the most energy inefficient households for those with an energy efficient rating of below SAP 20. At present 28% of households assisted are below SAP 20 prior to Warm Front's assistance. In 2008-09 the average improvement in household SAP rating as a result of Warm Front assistance was from 38 to 62 points (Energy Performance Certificate Band F to D).

**18. We urge the Government to ensure that the cost of bureaucracy is minimised and that the Minister's review include a re-assessment of Warm Front scheme rules to allow the use of local contractors where doing so can improve value for money. (Paragraph 86)**

A number of changes have recently been made to the Warm Front contract, including the allocation of work to contractors, which is intended to deliver greater value for money.

Under the new contract, up to 35% of work will be allocated to appointed installers at a new, competitively derived, set price. For the remaining 65% of work, Warm Front registered installers operating in that region will be able to bid via an electronic auction to establish the lowest price. This will include all cases where a customer contribution would be required under the fixed prices. In the bidding element, where the lowest bid is within the grant limit, that installer will be chosen to undertake the work. Where a customer contribution is required, individual households will be free to choose between the three lowest bidders and will have access to the installer's performance rating to help inform their decisions.

This new competitive system of choosing installers is expected to reduce installation pricing. In those cases where there is a customer contribution, this new approach will empower the householder to choose the installer to carry out work in their property. This new system will be rolled out across England, beginning in September, with full coverage in place by 1 May 2010.

Alongside a stronger negotiated contract, DECC has recruited an experienced contract manager, whose key responsibility is to ensure a more effective management of the Warm Front contractual arrangements.

**19. As eaga operates a monopoly in the provision of Warm Front service, customers have no choice but to use the contractors it specifies. The Government must ensure that eaga investigates all complaints and puts in place measures to address any consistently identified problems. (Paragraph 87)**

The National Audit Office value for money report, published in February 2009, reported that Scheme satisfaction is high, with 86% of households assisted by the Scheme satisfied with the quality of the work done, and only 5% – 6% dissatisfied.

At the same time it was recognised that more could be done to improve customer service. Under the new contract Warm Front will be introducing tighter quality controls to increase the standards of customer service that Warm Front provides. Some of the new requirements include strengthening the standards of service required in eaga's contracts with installer subcontractors. This will include an improved use of eaga's installer performance rating system to ensure installers are pushed to higher standards. Installers who do not meet the standard will see their work allocation reduced, or if necessary, stopped. Customer satisfaction and complaint rates will be an integral part of the contracted service level agreement between DECC and eaga. Customers' expectations of the Scheme will be better managed through clearer and more accessible customer literature. Complaints handling requirements will be improved to make the Warm Front complaints process more accessible and visible for the customer.

## **Decent Homes Standard**

- 20. Decent Homes has clearly been an effective vehicle for raising standards in social housing. However, the low level of requirements set for thermal comfort means that significant scope remains for improvement in energy efficiency levels. It is clear that the social sector leads the way in improving SAP ratings, but, given the likelihood of many social tenants being on low incomes, it is important to maintain progress and for future investment programmes to prioritise the improvement of energy efficiency levels. (Paragraph 94)**
- 21. We are disappointed that the Government has not, to date, undertaken an assessment of the costs for achieving higher SAP rates for social housing. We recommend that the Department of Energy and Climate Change works with the Department for Communities and Local Government to ensure that an appropriate thermal comfort level is included explicitly as an outcome from the capital investment programme following on from the Decent Homes programme. We do not accept assertions that it is not practical to achieve a SAP 81 level. We recognise that higher SAP levels will not be feasible for all types of construction but that does not mean that policy should set targets at the levels achievable for poorer housing stock. We recommend that Government assesses the cost and feasibility of introducing a SAP 81 standard as the basis of an improved thermal comfort level for all social housing. If this is declared impractical the corollary is the climate change targets are also likely to be impractical. (Paragraph 95)**

The Government welcomes the Committee's recognition that Decent Homes has been an effective vehicle for raising standards in social housing. It recognises that there is still a need to do more to improve the energy efficiency in social sector homes. As the Committee is aware, the Government's Heat and Energy Saving Strategy committed that the Government will show leadership by ensuring that social housing meets, and where possible exceeds, the aims it is setting for all housing on energy efficiency and low carbon energy.

The Government is considering, with the Tenant Services Authority, the need to identify aspirational standards and benchmarks for energy savings and emissions reductions in refurbishment, for different property types and how this might be funded. During this process we will assess the cost and feasibility of introducing a SAP based standard as the basis of improved thermal comfort level for social housing. However, there are practical issues regarding the feasibility of achieving a given level of thermal performance across all homes. The Government has already done some work with the Building Research Establishment (BRE) to consider the issue of hard-to-treat dwellings. It may not be appropriate to spend significant sums of money to ensure an individual property achieves a particular SAP rating when the same resource could deliver a bigger benefit for a wider number of people if used differently.

## **Housing Health and Safety Rating System (HHSRS)**

22. In the private rented sector there is a 'split incentive' for taking action on energy efficiency, because the landlord bears the costs of installing measures but the tenant reaps the benefit of reduced energy bills. As a result there is a need for stronger regulatory forces to encourage action in this sector. We are therefore concerned that one of the levers that is available, HHSRS enforcement action, is not being pursued as vigorously as it could be. (Paragraph 99)
23. We recommend that the Government urgently reviews the extent to which local authorities use their powers under the Housing Health and Safety Rating System to tackle excess cold. We further recommend that guidelines are issued in the next six months to all local authorities with housing responsibilities highlighting the importance of using HHSRS provisions to ensure fuel poverty levels in the private rented sector are reduced. (Paragraph 100)

Department for Communities and Local Government (CLG) officials wrote to all local authority Chief Executives in November 2008 to draw their attention to the Government's package of measures to help households to reduce their fuel bills. The letter also sought to remind local authorities of their statutory duties under Part 1 of the Housing Act 2004 and to encourage the adoption of a more strategic approach to addressing the issues of excess cold through use of the HHSRS. The letter contained a number of sources of support for landlords and set out the approach that local authorities should consider taking where, for whatever reason landlords refused to take advantage of the support. This will include inspection by the local authority as a matter of priority.

Energy efficiency measures that local housing authorities can reasonably require a landlord to install depends upon the deficiencies in each individual dwelling but it is the view of CLG that a high efficiency heating system and loft and cavity wall insulation will be viewed as reasonable, where appropriate. However, in relation to higher cost measures such as the replacement of single glazed windows with double-glazed replacement windows it is DCLG's view that this can only be justified where the condition of an existing window and frame is so poor e.g. rotted and draughty, as to contribute to the hazard.

The Government is committed to undertaking a review of the operation of the HHSRS and CLG are currently considering the aims of this research.

## **Hard to treat properties**

24. CERT's emphasis on cavity wall and loft insulation has been ineffective in helping those living in solid wall properties. We recommend that the Government establish how new technologies, such as air source heat pumps, can be deployed for hard to treat homes. We further recommend that the Government develop a financing model to enable fuel poor households to take advantage of such technologies. There is greater

**potential for fuel poor households to benefit from community scale schemes. (Paragraph 107)**

Through its market transformation route, CERT does encourage the early deployment of external and internal lagging. This has played a useful role in helping pull these technologies to market, so that supply chains are stimulated. There are case-studies (with 83,000 homes benefiting since 2002) from which Government can take best practice. Ultimately, CERT needs to balance drawing through more expensive measures, against the total costs of the scheme. As part of the CERT phase from April 2011, DECC is considering the role of solid wall insulation in helping deliver our ambition to direct more investment to those most in need.

The Government has also introduced the Community Energy Saving Programme (CESP) which began on 1 September and is intended to target solid wall insulation as part of whole-house treatment in low-income areas. CESP will operate on a basis of cooperation between local authorities, communities and energy companies.

The Government has made progress in establishing new technologies via the expansion of the Warm Front Scheme to include the installation of low carbon technologies (such as air source heat pumps), which will help hard to treat households generate their own low-cost, renewable energy. These technologies are initially being trialled in small-scale pilot programmes through the Warm Front Scheme.

**25. Local authorities should be required to survey their areas and identify opportunities to retro-fit microgeneration systems in both its housing and business sector. The Department for Communities and Local Government should evaluate the implications for all new housing developments over 50 units in size being required to install a district heating system. (Paragraph 108)**

The Government is currently considering ways to support local authorities meet their targets for carbon emissions reduction, particularly in the community. Where the local authority has adopted a target for carbon emissions reduction (National Indicator 186) or the promotion of onsite renewable and low carbon energy, they may wish to review opportunities in their social housing stock and, more broadly, consider appropriate forms of microgeneration to promote in communities, consumers and business and other public sector partners, for example small scale wind where average wind speed is high or biomass boilers where the locality is not an air quality management area.

The decision by local authorities on whether microgeneration is the right economic decision for existing private homes and businesses could only be made on a case by case basis. For this reason, it may not always make sense for a local authority to review the opportunity for microgeneration based on a survey of all the housing and building stock in its area. However, where local authorities are considering promoting a “whole house” approach to retrofit, for example through “pay you as save” pilots, microgeneration should be considered as part of the solution.



The Government's target for all new homes to be zero carbon from 2016 should encourage developers to think about all relevant technologies.

Proposals for carbon compliance and allowable solutions were set out in a consultation on zero carbon homes in December 2008<sup>5</sup>. The consultation proposed that low carbon heat imported by a housing development would count towards carbon compliance and that exports of low carbon renewable heat from a new development to other developments would count as an allowable solution in meeting the standard. A statement by the Minister for Housing and Planning in July 2009<sup>6</sup> confirmed that low carbon heat imported by a housing development from heat networks would count towards carbon compliance. The statement further indicated that, pending further decisions on allowable solutions later this year, exports of low carbon or renewable heat and investments in low and zero carbon community heat infrastructure commanded broad support as allowable solutions.

However, the zero carbon homes policy does not stipulate particular technologies that must be used for carbon compliance or for allowable solutions. This is because different technologies will be appropriate in different situations. For example district heating schemes may not be the most cost effective or environmentally desirable technology in all situations, for example where the heat load and/or density of development is relatively low.

In addition, the Planning Policy Statement (PPS) on climate change<sup>7</sup> is clear that local planning authorities should expect a proportion of the energy supply of new development to be secured from decentralised and renewable or low-carbon energy sources where it is viable. This should not be technology specific, but could include district heating systems where appropriate.

The climate change PPS will be combined with the PPS on renewable energy to create a new combined PPS in 2010. This will support the delivery of Government's ambitions for renewable energy deployment form part of the route-map for delivering zero-carbon homes from 2016.

## New homes

**26. We welcome the planned ratchetting up of energy efficiency requirements under Building Regulations aligned to the levels of the Code for Sustainable Homes, but we have concerns about the extent to which these are being enforced in practice. The Department for Communities and Local Government pilot scheme to review this is welcome but the lessons from this need to be disseminated nationally to those responsible for building control functions. The Department should issue guidance to local authorities and other building control bodies urgently reiterating the need for rigorous enforcement of energy efficiency requirements. (Paragraph 112)**

<sup>5</sup> <http://www.communities.gov.uk/publications/planningandbuilding/zerocarbondefinition>

<sup>6</sup> <http://www.communities.gov.uk/statements/corporate/ecozerohomes>

<sup>7</sup> <http://www.communities.gov.uk/documents/planningandbuilding/pdf/ppsclimatechange.pdf> (published in December 2007)

The Department for Communities and Local Government (CLG) issued a consultation on proposals to raise current energy efficiency levels by 25% under Part L of the Building Regulations on 18 June 2009<sup>8</sup>. The proposals include a number of measures to improve compliance and enforcement, including:

- a design stage as well as an as-constructed energy performance calculation;
- the option to claim higher performance by adopting Accredited Construction Details along with enhanced quality control;
- wider use of Competent Person Schemes; and
- more focussed guidance for renovation work.

In addition the consultation contains a strategy for training and dissemination to building control and industry in the run up to the amendment of Part L in 2010 and beyond.

It is recognised that improving compliance and enforcement calls for more than just modifications to Part L, but also change at a procedural level in the way industry and the building control system function. This is why CLG has consulted on proposed changes to the building control system and will be following this up with a programme of reform to make it work more effectively.

In the light of the above CLG considers it would be premature to issue fresh guidance to local authorities and other building control bodies now before the department has had a chance to consider the consultation responses. However, new guidance may eventually form part of the measures that are introduced when Part L is revised in 2010.

## **Future proposals for energy efficiency programmes – Heat and Energy**

### **Saving Strategy Consultation**

27. To date energy efficiency programmes have not reduced levels of fuel poverty enough to meet the Government's targets. This reflects in part the lack of separately identified policy goals for fuel poverty reduction within energy efficiency programmes. We are concerned that the sublimation of fuel poverty objectives within the climate change mitigation led aims of energy efficiency programmes has led to a lack of focus on achieving the maximum benefit from expenditure on such programmes for the fuel poor. The latest consultation documents reinforce this view since fuel poverty is addressed as a side-issue rather than being interwoven into all policies. (Paragraph 119)

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<sup>8</sup> [www.communities.gov.uk/publications/planningandbuilding/partlf2010consultation](http://www.communities.gov.uk/publications/planningandbuilding/partlf2010consultation) – Volume 1 Chapters 2 to 4



Fuel poverty is caused by the inter-relationship of three factors and the Government's fuel poverty policies have been, and continue to be, centred on:

- reducing the demand for energy through improving home energy efficiency;
- ensuring competitive energy prices through regulating the market; and
- raising real incomes.

Depending on prevailing circumstances, it may be necessary to focus on one factor more than another, but the Government believes it is necessary to address each component which gives rise to fuel poverty.

On 15 July, the Government published a White Paper, UK Low Carbon Transition Plan setting out how the UK will make the transition to becoming a low carbon country: cutting emissions, maintaining secure energy supplies, maximising economic opportunities, and protecting the most vulnerable. It includes the initial findings of the fuel poverty review, which was launched earlier this year, and sets out how it will address both energy efficiency and target the fuel poor through specific measures:

- By announcing major improvements to the Warm Front contract, which will provide greater competition and therefore better value for money. Increasing the grant limits for eligible households under Warm Front. This increase to £3,500 or £6000 where oil or alternative technologies are recommended will mean many households will not have to contribute payment towards the installation of energy efficiency measures in their homes. It should be noted that the impact of the increased grant maxima has reduced the proportion of applicants required to make a contribution to 1 in 10 where heating measures are recommended. The measures provided are expected to save each household, on average, £350 per year on energy bills.
- The launch of the Community Energy Saving Programme (CESP) is designed to exclusively reach areas of low income, where residents have a higher than average propensity to be in fuel poverty. This new £350 million programme will be delivered through a partnership approach, on a 'whole house', street-by-street basis; and will help reach more of the most vulnerable. We will be monitoring this programme carefully to learn more about the future of this 'whole house', street-by-street approach.
- The Carbon Emissions Reduction Target (CERT) has been changed so that, from August 2009, in total an estimated £1.9 billion will be directed at the low income and elderly priority groups. We are also looking at ways to ensure more help for the most vulnerable within our priority group for the CERT extension, until the end of 2012.
- We also propose to bring forward new legislation to place social price support on a statutory footing, once the voluntary agreement ends in March 2011. The Government is minded to focus a large part of our resources on those older pensioner households on the lowest incomes who are at the greatest risk of excess winter deaths and who tend to have a higher incidence of fuel poverty.

- We will continue to work across central Government, with local government and local community organisations, energy suppliers and other stakeholders and delivery partners to find better ways of targeting help and support to the fuel poor and these households can benefit from new schemes, such as the Renewable Heat Incentive (RHI), to help reduce energy bills.

We are reviewing the consultation responses and will work to ensure that these concerns are properly addressed as we go forward with the formation of our strategy.

**28. Despite laudable long-term aims, the consultation documents contain little practical detail and postpone definitive proposals, pending further consultations, summits and the establishment of a Heat Markets Forum. This will only delay the so-called “Great British Refurb” and its programme of energy saving measures. We find this surprising given the plethora of previous consultations and calls for evidence, including on metering and billing, the renewable heat incentive and the household energy supplier obligation post-2011. The 2015 target for the insulation of lofts and cavity walls lacks ambition in terms of fuel poverty and meeting the climate change target. We are also extremely concerned at the lack of progress on many of the recommendations we made in our report on Climate change: the “citizen’s agenda” in 2007. (Paragraph 120)**

The recent consultations do not mean that action has not been taken in relation to heat and energy saving. The intention has been to ensure that DECC gains as wide a breadth of opinion as possible to aid its decision-making. For example the aim of the Heat and Energy Saving (HES) Strategy consultation document was to reach the whole of the British population, although DECC acknowledges the need to ensure that fuel poverty is given special attention within this.

The Government has already assisted an ambitious number of households through its existing programmes. Since 2000 Warm Front has assisted over 2 million households with energy saving measures and advice, including half a million households in the last two years alone. Through CERT (and previously the Energy Efficiency Commitment) 6 million homes have been insulated since 2002, 1 million in 2009-09.

DECC is also considering how future arrangements for delivering energy efficiency measures to households could continue to support the fuel poor alongside other households as we develop the Government’s proposals for the heat and energy saving “Great British Refurb” post 2012.

DECC is addressing many of the recommendations made by the Committee in ‘Climate Change: “The Citizens Agenda”’. For example, we have announced the roll out of smart meters to every home by 2020, showing that we are ensuring that energy demand is ‘future proofed’, we are also developing proactive services from the Energy Saving Trust. It is recommended that in existing housing stock, where it is not possible to install energy efficiency measures, that alternative technologies should be made available. With this in mind, the HES Strategy consultation document discusses the role of community heating and microgeneration.

29. **Given the urgency of the issue, and given that the technologies and techniques to achieve high home energy efficiency are now well known, DECC should have set out a detailed action plan on how to deliver domestic energy efficiency (reflecting both climate change and fuel poverty objectives) within its consultation on the Heat and Energy Saving Strategy. The Government should now curtail its consultation process and in the next three months should produce a detailed action plan for home energy efficiency sufficient to achieve its fuel poverty objectives. (Paragraph 121)**

We have set out clear plans for a number of measures to the end of 2012. For example:

- “Pay as you save” pilots
- CESP
- 20% increase in the overall CERT target
- extension of the CERT obligation, until the end of 2012, and we will be publishing our long term plan in the HES Strategy later this year

It is important that we learn from CESP, and other programmes, how the community approach and targeting of low income areas works in practice for tackling fuel poverty in the future. It would be difficult, and disadvantageous, for the Government to produce detailed action plans for the delivery of home energy efficiency as this obligation has been placed on electricity suppliers to deliver. If we were to produce such plans, it would interfere with the market mechanism that has been put in place.

We are presently considering, in great detail, the post-2012 delivery options in the HES Strategy, making sure that we develop options that mitigate the impacts on the fuel poor.

## **Scale of funding required**

30. **We consider around £4 billion a year over the next seven years to be a realistic estimate of the cost of raising the energy efficiency levels of fuel-poor households to SAP 81, sufficient to remove the majority of households from fuel poverty. This would require nearly a trebling of current funding for energy efficiency programmes directed at fuel poor households. However redirecting other “fuel poverty” programme funding into energy efficiency measures would reduce the need for additional public money. (Paragraph 128)**

DECC believes that using SAP ratings as a standard, and requiring all fuel poor households to be upgraded to a SAP 81 rating by 2016, ignores the diversity of the UK housing stock, over 40% of which has a SAP rating between 39-54 and of the people who live in them.

It is currently estimated that only 35,000 properties in England meet Band B – SAP 81, and that 1.7 million homes are Band C – SAP 69, 28,000 of which are

thought to be fuel poor. The average SAP rating of all homes is 50, according to the 2007 English House Condition Survey (EHCS).

The energy efficiency of a building is one of the three factors that determine fuel poverty (along with prices and household income). The Government has long recognised this and has a package of measures in place to tackle this and the other root causes of fuel poverty. These include Warm Front, CERT and the Decent Homes programmes, primarily addressing the energy efficiency of households, and Winter Fuel and Cold Weather Payments to increase household incomes. It has also pressed energy companies to reduce prices and ensure a competitive market for all consumers, and announced its intention to introduce mandated social price support at the earliest opportunity.

Some homes will be harder to treat than others, requiring a greater level of resources. The Government's proposed energy efficiency policies, including HES, CESP and the Renewable Heat Incentive, will take a house-by-house approach, where the unique circumstances of each property and its occupants are taken into account.

We haven't expressed our level of ambition in the HES consultation in terms of SAP levels. But the sort of measures required to improve hard to treat properties, renewable technologies and solid wall insulation for instance, would be measures that we could expect to get many homes up to the level of SAP 81.

The 2007 EHCS Annual Report was published on 29 September 2009<sup>9</sup> and, in addition to an assessment of the current performance of the housing stock, models the impact of carrying out a range of cost effective improvements that are recommended by the Energy Performance Certificate (for example, cavity wall, loft and cylinder insulation, upgrading boilers on existing heating systems). The results of this work indicate for example how many properties would reach Band C or higher given the range of improvements covered. The improvements included in the assessment do not cover the higher cost and new carbon reduction technologies (such as solid wall insulation and solar photovoltaic panels) that may be required to achieve good performance in many properties.

## **Balance of funding responsibilities – energy supply industry and**

### **Government roles**

- 31. Whilst it is right that energy companies contribute to improving the overall energy efficiency of the UK we believe that policies designed to address fuel affordability should be funded from general taxation. (Paragraph 134)**

The Government has spent significant sums on policies and programmes to alleviate fuel poverty. Since 2000, it has spent in excess of £20 billion in helping vulnerable households. This includes Warm Front with a committed spend of over £950 million until 2011, the Decent Homes programme which has spent £27 billion so far on improvements to social housing, Winter Fuel

<sup>9</sup> <http://www.communities.gov.uk/housing/housingresearch/housingsurveys/englishhousecondition/ehcsreports/>

Payments worth over £2 billion in 2008-09 when the Government made over 12 million payments to over 8.5 million pensioner households, and Cold Weather Payments which were increased from £8.50 to £25.00 per week for last winter making a total spend of £210 million, with 8.4 million payments made.

However, it believes that suppliers also have a role to play in protecting the most vulnerable households at risk of fuel poverty. Energy companies also recognise the important role they have to play in this context and have already agreed to spend combined sums of £100 million/£125 million/£150 million on social programmes between April 2008 and March 2011.

In announcing the social price support policy in the recent White Paper, DECC's aim is to give the types of vulnerable households receiving help from energy suppliers under the current voluntary arrangements the confidence that similar help will continue after March 2011. It has also announced the intention to create mandated social price support at the earliest opportunity, with increased resources compared to the current voluntary system

## **Awareness of support**

32. **There is a lack of clarity about what companies are spending on CERT and to what extent this expenditure is being recouped from customers. Equally customers are largely unaware of the assistance available to them under the scheme. We called over two years ago for action to clarify information on fuel bills and have been disappointed with the lack of consistent action from the energy supply industry in response to this. (Paragraph 147)**
33. **We recommend that Ofgem requires all energy suppliers to apply improved and consistent standards for the provision of information on bills. Bills must include a clear breakdown of the costs per household of CERT, so as to give every indication of the cost/benefit of this intervention, as well as giving a cost per household of other programmes required by the regulatory regime such as the European Emissions Trading Scheme and the Renewables Obligation. Billing must also provide signposted information to encourage customers to take up home energy assistance available under its CERT scheme. (Paragraph 148)**
34. **We recommend that Ofgem requires energy companies to report annually on the expenditure undertaken to meet CERT or its successor programmes. This information should show clearly the proportion of spending funded by both the company and its customers. (Paragraph 149)**

The Government is taking a number of steps to ensure consumers are assisted in understanding the support available to them. For instance the Government continues to increase the support available to households through the Energy Saving Trust (EST). The EST provide a holistic one stop shop to consumers not only on avoiding energy waste, but in providing easy access to the full range of supplier and local authority support and subsidies on energy saving measures.

Equally, through the Government's own Act On CO<sub>2</sub> campaign we are focused on saving energy in the home and on reducing energy bills and carbon emissions,

signposting people to the EST Act on CO<sub>2</sub> helpline and highlighting the benefits of the energy saving measures offered under CERT as part of coverage in national television, press, radio and online.

The Government and Ofgem support environmental information being made available to customers. Improved transparency could help generate additional demand for energy efficiency measures and so help contribute to our energy and climate ambitions as well as reduce the costs associated with finding customers under schemes like CERT. However, benefits to any specific household cannot be guaranteed under policies like CERT within its timeframe.

Suppliers are already required to provide a range of information on bills and Ofgem produces a factsheet explaining the costs that make up household energy bills which includes an estimate of the per household cost of environmental programmes.

Suppliers' licences require suppliers to provide consumers with energy efficiency information in a range of formats. This includes providing information about the support that is available. Suppliers often use billing processes as a key means of alerting consumers to the offers available under CERT so that they can generate demand and meet their carbon emission reduction targets more easily.

Together these measures have helped to set stretching carbon saving obligations on energy suppliers and assisted suppliers in generating demand for the offers available to consumers, seeing all supply companies meet their targets easily to date.

**35. It is not clear whether Ofgem has sufficient access to the energy companies' financial information. We received conflicting evidence on this from Ofgem who told us "we do have powers that we use in our energy supply probe exactly to get all the detailed information that we need from companies", yet also that "there are some areas where we are seeking additional powers [...] in respect of the wholesale gas and electricity market we want to have additional powers that tackle market abuse". (Paragraph 152)**

When conducting its probe, Ofgem had sufficient access to energy companies' information. The statement made regarding additional powers relates not to accessing company information but to Ofgem's request for additional powers to tackle market abuse, the potential for which was identified during the probe.

**36. We are concerned that Ofgem has been slow to address failings in some parts of the energy market and has not communicated clearly to customers what steps they and energy companies have taken to ensure prices for all customers are kept as low as possible. (Paragraph 153)**

The Government continues to believe that the regulator should have the powers it needs to protect consumers in the light of any market developments. In the UK Low Carbon Transition Plan, DECC announced proposals to extend the period in which the regulator can act where it considers that there may have been breaches of licence conditions, and proposals to grant Ofgem further



powers to regulate in the wholesale electricity market, through a Market Power Licence Condition.

Ofgem publishes a Quarterly Report on wholesale and retail price movements, and has recently written to suppliers about improving their communication of information on prices. In addition, Ofgem is planning to introduce new obligations on suppliers to ensure direct debit payments are accurately set and clearly explained. The new condition in suppliers' licences will mean they must ensure payment levels are clearly and accurately explained and based on the best available information. Suppliers will also need to be able to justify why they are holding onto credit surpluses built up by a customer.

Following the 2008 probe, Ofgem has developed a number of proposals to improve licence conditions to get a better result for consumers, including proposals on clearer customer bills and statements; tougher rules on direct selling; protection for vulnerable and indebted customers; banning of undue discrimination in payment methods and customer contracts; protection for small business and increased market transparency. Ofgem has published information at each stage, invited views, and has involved a range of consumer organisations in the consultations.

In addition, Ofgem worked with their Consumer Panel to develop some of the proposals, particularly around improvements to consumer information. The Consumer Panel consists of 100 consumers who meet several times a year to help Ofgem develop consumer centred policy. Alongside the Panel, Ofgem also commissioned additional research with elderly consumers, people on particularly low incomes and those with limited literacy skills to test and refine proposals around improved consumer information.

Ofgem has also recently issued its first Consumer Bulletin, which provides updates on its broad range of action to protect consumers.

## **Delivery of a national action plan – an area based approach**

- 37. We welcome the Secretary of State for Energy and Climate Change's recognition that energy efficiency proposals have to date been incremental and his support for a comprehensive national approach delivered at a community level. (Paragraph 163)**
- 38. We regret that there has to date been a lack of ambition in the Government's plans to upgrade the energy efficiency of our existing homes, which is in stark contrast to the clear aims for improving the energy efficiency levels of new homes. We consider that the piecemeal approach to programmes has been a deterrent to setting higher ambitions for energy efficiency of English homes and that the arguments for an area based approach, focusing first on the areas of most need, are compelling. (Paragraph 164)**

In February 2009, the Government published its Heat and Energy Saving (HES) Strategy for consultation. In that Strategy, we proposed an ambitious goal of offering the UK housing and building stock all cost-effective measures by 2030,

plus renewable heat and electricity measures as appropriate. By 2015, we aim to have insulated all lofts and cavity walls will be insulation, where practical.

We have given certainty to allow energy companies to plan action to improve energy efficiency in existing homes by announcing that the Carbon Emissions Reduction Target will continue until the end of 2012. However, we recognise that we may need to look to a more coordinated, community-based approach in the future, which is why the new Community Energy Saving Programme will test the area-based approach by using a house-by-house, street-by-street approach to installing 'whole house' energy efficiency packages, whilst at the same time targeting those who are vulnerable to fuel poverty.

- 39. Given the experiences already gained under existing schemes such as CEEF and Warm Zones we do not think it is justifiable to wait for the outcomes of CESP before developing detailed proposals on area-based approaches. We therefore recommend that DECC undertake an assessment within the next six months of the costs and benefits of realigning existing programmes into a comprehensive, area-based programme, examining the potential benefits to be had from more efficient targeting and delivery, with improved customer awareness and uptake. This assessment should encompass how area-based approaches could enable integration of energy efficiency with income maximisation and price minimisation measures for the fuel poor. It also needs to address the benefits of integrating energy efficiency and heat generation programmes. (Paragraph 165)**
- 40. Locally-led programmes can be highly effective in utilising local knowledge, joining together local partners and engaging local residents. Local authorities are well placed to lead on energy efficiency and fuel poverty programmes, with their unique combination of cross-organisational links, democratic mandate to deliver local priorities, contacts with local residents and in-depth understanding of local circumstances on a range of factors such as the condition of housing stock and socioeconomic profiles. (Paragraph 166)**
- 41. We recognise that there is a need to define areas for schemes carefully, including setting the appropriate geographical scale as well as location and therefore support the use of local authorities as coordinators and delivery agents of area-based programmes, and not merely as partners in delivering energy companies' targets. (Paragraph 167)**
- 42. This approach could enable energy company delivery of CERT programmes to be replaced with a levy on energy companies paid into a central fund. Combined with funding from other programmes this would be distributed to local authorities to fund delivery of the national action plan to upgrade energy efficiency. (Paragraph 168)**

The Government has a number of programmes to improve the energy efficiency of existing homes using different approaches which we are keen to maintain. Using a single approach would not be beneficial and could stifle innovative ideas coming forward in the future.



Projects under the Community Energy Efficiency Fund (CEEF) offer energy efficiency and income maximisation measures through a door-by-door, street-by-street approach. They all have 'buy in' at the local level in particular from the local authority who act as the trusted face to the local community and in many cases lead the project. A continuous programme of assessment is undertaken to monitor delivery.

Community Energy Saving Programme (CESP) will utilise a whole house approach to ensure a single, comprehensive method of delivering energy efficiency to a home through a single source i.e. a particular obligated company. CESP also includes an incentive mechanism for delivering maximum area penetration which it is envisaged will be achieved through new and existing local community partnerships between local authorities, energy companies and community groups delivering measures through a street-by-street approach. These partnerships will help to identify synergies with other initiatives which have similar objectives, such as CERT and community based schemes, and ensure the best local solutions are found. The evaluation of CESP, which will begin in 2010 will assess the pros and cons of both the community based and whole house approaches and, while it will not fully address these recommendations, it will provide evidence for consideration as part of HES.

The lessons learnt from CESP will in turn inform the development of a large scale, supplier led, area based model. There is a lot to be learned from the CESP pilots. But we are not just waiting for results. We are working on many fronts, as changes to CERT and Warm Front demonstrate.

## **Refocusing Government priorities**

- 43. Fuel poverty has slipped down the list of Government priorities at a time when rising energy prices mean action is most needed. The creation of the Department of Energy and Climate Change provides the opportunity to rectify this but there is little indication that this is yet happening. (Paragraph 171)**
- 44. We recommend that the Secretary of State for Energy and Climate Change sets out in the next three months the level of priority his department will give to fuel poverty objectives and how it will work with other Government departments, agencies and private organisations to fully implement its proposals. (Paragraph 172)**

As the Committee has itself recognised elsewhere in its report, the rise in energy prices was a major factor in the increase in the number of fuel poor households. However, fuel poverty did not become less of a priority for Government, nor was it idle when it saw the number of fuel poor households increasing. The Government has continued to take action and to support this, earlier this year, DECC announced a review of its fuel poverty policies.

Since the fuel poverty review was announced in January this year, the Government has:

- Announced major improvements to the Warm Front delivery contract. These changes will open the Scheme up to greater competition to provide best value for money and improved customer service.
- Announced increases to the grant limits for eligible households under the Warm Front Scheme. The grant increases of £3,500 (or £6,000 where oil or a new low carbon technology is recommended) will mean that the vast majority of households will not have to contribute payment towards their measures. The Scheme is also being expanded to pilot the installation of low carbon technologies. On average, each recipient has the potential to save over £350 per year on energy bills. The Scheme has assisted two million households since 2000, with over half a million households in the last two years alone.
- Launch of the Community Energy Saving Programme (CESP) from September 2009. This programme is designed to apply entirely in areas of low income, where households are likely to have a greater than average propensity to be in fuel poverty. This new £350 million programme will improve energy efficiency and lower household fuel bills, and the partnership approach with local authorities and other community representative organisations should help to reach more of the most vulnerable households.
- Increasing the obligation on energy suppliers through the Carbon Emissions Reduction Target (CERT) so that from August 2009, an estimated £1.9 billion will be directed at energy savings amongst a priority group of low income and elderly households in the period to 2011. For the extension period of CERT to the end of 2012, the Government has also announced that it will be exploring how best to provide help to more of the most vulnerable households within the Priority Group.

The initial findings of the review are integrated in the UK's Low Carbon Transition Plan. This included a proposal to bring forward new legislation at the earliest opportunity with the aim of placing social price support on a statutory footing when the current voluntary agreement ends in March 2011. Under the existing voluntary agreement, energy suppliers will be spending £150 million in 2010-11 on social programmes. Examples of assistance from companies include rebates on annual bills, and social tariffs. Ofgem estimated in December 2008 that 800,000 customer accounts were benefiting from some form of social or discounted tariff, almost double that in March 2008. As part of the proposed statutory framework, the Government will ensure there is an increase in resources available and give suppliers greater guidance and direction on the types of households eligible for future support. Subject to further policy development, the Government is minded to focus a large part of the additional resources on those older pensioner households on the lowest incomes. These households are at greatest risk of excess winter death and tend to have a high incidence of fuel poverty.

## **A national plan for energy efficiency**

- 45. The Government needs to set out a road-map showing how it intends to meet its fuel poverty targets and identifying the contributions from each of the three elements affecting fuel poverty levels (namely prices, incomes and energy efficiency levels) towards reaching the targets. This strategy should include a costed action plan which identifies the levels of funding required to deliver the programmes needed, together with a timetable for planned phasing of expenditure and identification of key funding sources. Responsibilities of each department should be clearly set out. (Paragraph 177)**

On 15 July, the Government published a White Paper, “UK Low Carbon Transition Plan” setting out how the UK will make the transition to becoming a low carbon country: cutting emissions, maintaining secure energy supplies, maximising economic opportunities, and protecting the most vulnerable. It includes the initial findings of the fuel poverty review, which was launched earlier this year, and sets out how it will address both energy efficiency and targets the fuel poor through specific measures. The Road Map to 2050 for the Transition Plan will be published in the spring of 2010. This will include consideration of action required to tackling fuel poverty and will build on previous modelling undertaken as part of the policy development process.

- 46. The major factor in derailing the Government’s progress towards its 2010 target was the unanticipated and unplanned-for hike in electricity and gas prices. While it is not always possible to accurately forecast price movements it is nevertheless possible to set out a range of likely price scenarios. DECC’s action plan therefore needs to be based on a range of scenarios for fuel prices, covering the spectrum from high to low, in the coming years and decades. This should set out specifically how it plans to meet the 2016 target within its fuel price scenarios. (Paragraph 178)**

DECC has produced a view of the energy price and bill projections until 2020 in the UK Low Carbon Transition Plan. Further details of our assessments for prices and bills with particular emphasis on climate change policies can be found in the Analytical Annex. The Department is doing all that is reasonably practicable to tackle fuel poverty. However, recognition of the likely higher fossil fuel prices was one of the factors underpinning the Government’s decision to take powers to introduce mandated social price support.

- 47. We recommend that as part of this plan the DECC sets a target date for improving the English housing stock to a specific level of energy efficiency. This level will be dependent on the modelling of the impact of price rises and income levels on fuel poverty. We recommend that SAP 81 should be adopted wherever practicable, with a minimum SAP level of 65. (Paragraph 179)**

The Government’s response on SAP levels is outlined in Recommendation 30.

**48. Alongside the work on the action plan, we recommend that DECC commission, and report on within 6 months, a review of fuel poverty reduction policies undertaken by similar European countries and assess their effectiveness in a UK context. (Paragraph 180)**

DECC is aware of a review of fuel poverty reduction policies undertaken across a number of European countries; The Summary Report on European Fuel Poverty and Energy Efficiency (EPEE) was undertaken as part of the Intelligent Energy – Europe (IEE) report European Fuel Poverty and Energy Efficiency.<sup>10</sup> The report looks to improve the knowledge and understanding of fuel poverty, evaluate the number of households currently living in fuel poverty in the 5 states which are partners of this project (Belgium, Spain, France, Italy and the UK), and identify operational mechanisms to address fuel poverty.

In order to obtain significant comparisons between the countries involved in the report, the EPEE used common data on Income and Living Conditions survey which constitutes the main tool to draw the picture of poverty and social exclusion on a European scale.

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<sup>10</sup> [http://www.fuel-poverty.org/files/WP2\\_D6\\_en.pdf](http://www.fuel-poverty.org/files/WP2_D6_en.pdf)





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