

**Fuel Poverty Advisory Group**  
(for England)

**12th Annual Report**

**2013-14**

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## Foreword by Derek Lickorish MBE, Chair, Fuel Poverty Advisory Group



At the end of my extended six-year term of office as Chair of the Government's Fuel Poverty Advisory Group (FPAG) for England, it is time for some reflection. Let me start by saying a very heartfelt thank you to the committee members, both past and present, and particularly so to my deputy chairs Dr Gill Owen and Teresa Perchard for their unfaltering support during some very challenging times.

I took up the role in 2007, at the same time the world's economy went into decline, gas and electricity prices began to increase dramatically and decarbonisation policy costs were increasingly being added regressively to bills (these policies are expected to cost consumers circa £9 billion per annum by 2020 – up more than three times, in real terms, since 2012). Meanwhile, successive Governments have failed to fully grasp the nettle of fuel poverty: as a result there are some 2.3 million fuel poor households currently in England alone with a fuel poverty gap of more than £1 billion per year, or nearly £450 per household.

### Alleviating fuel poverty

The **only** real long term sustainable solution to alleviating fuel poverty is to establish a properly funded program that insulates all the homes affected and ensures an efficient heating system is installed. Guaranteeing this outcome will require significant investment and will take about £1.7 billion per annum over 15 years.

Some may argue that the parlous state of Government finances will preclude such progress. I profoundly disagree. This is about political will, driven by a robust understanding of the benefits case. Fuel poverty can severely affect people's health because those affected often under-heat their homes. Cold homes are estimated to burden the NHS with costs of £1.36 billion per annum.<sup>1</sup> It is also a known contributor to the 25,000 'excess winter deaths' per year in England and Wales.<sup>2</sup> As the aging population increases, so will the risks and cost. The Government has carbon reduction targets related to household carbon emissions it must achieve, yet fuel poor households are typically very inefficient, older dwellings, meaning they are needlessly wasting energy and increasing emissions.

### Essential relief

The majority of funding for fuel poverty alleviation is spent through the Winter Fuel Payment (WFP), Cold Weather Payment (CWP) and Warm Homes Discount (WHD); which provide essential financial relief for many in the form of cash payments or a directly targeted energy bill rebate. Some £2.6 billion per annum is spent in this way but it does not address the long-term fuel poverty challenge which requires energy efficiency measures.

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<sup>1</sup> Age UK (2014) *Reducing fuel poverty – a scourge for older people*.

<sup>2</sup> Analysis by National Energy Action; average number of 'excess winter deaths' over 5-year period to 2013/14.

## Meeting Treasury requirements

The recently published National Infrastructure Plan (2014) briefly mentions domestic energy efficiency but not fuel poverty, yet investing in domestic energy efficiency meets many of the requirements which the Treasury considers when valuing infrastructure expenditure. For example:

- immediate and long term macro-economic benefits<sup>3</sup>
- increasing the capacity and resilience of the economy
- reducing environmental impacts
- linked benefits with other forms of infrastructure (such as the NHS).

These are all points FPAG has made in previous annual reports and related recommendations.

## A national infrastructure priority

Government should value energy efficiency as a national infrastructure priority, and allocate some of the £100 billion public infrastructure spend over the next parliament and beyond to domestic energy efficiency, initially targeting the fuel poor, through a locally delivered area-based approach.

FPAG has long argued the case for a properly funded programme based on a robust strategy with targets and we are, at last, getting there. The legal requirements in the Energy Bill mean that the next Government must declare its plan for achieving a new fuel poverty target within six months of the general election. This is a major step forward. In respect of the fuel poverty target, the current Government has put in place a new law to ensure that as many fuel poor households in England as is reasonably practicable have a Band C energy efficiency rating by 2030. FPAG asked that this was achieved earlier, by 2025. The challenge for my successor, with what is to be a reformed FPAG with a greater legitimacy to hold the Government to account, is to make that happen and seek to bring the 2030 date forward. It sounds simple enough but alignment on funding, political will and what 'reasonably practicable' actually means will determine success or otherwise.

## A political football

Finally, as I exit my virtual office it is ironic we have oil at around \$50 a barrel, an improved economic horizon, and our gas and electricity costing us some £3 billion a year or so more than it should because some suppliers purchased their forward wholesale energy at relatively high prices to mitigate the risk of a price freeze through to 2017. I do hope the Competition and Markets Authority (CMA) referral produces some profound recommendations that will stop energy services from being a political football, provide greater transparency and confidence for consumers and give a view as to how long-term decarbonisation should be paid for. Low income and fuel poor consumers typically use less energy than the average household, but make a disproportionately large contribution to policy costs and design. Regulatory oversight must not neglect this fundamental issue and point of consumer equity.

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<sup>3</sup> Cambridge Econometrics/Verco (2014), *Building the Future: The economic and fiscal impacts of making homes energy efficient*.

## Retrospective review – Fuel Poverty Advisory Group policies and concerns

As the current Fuel Poverty Advisory Group (FPAG) signs off, we have taken stock of our work and the difference we have made to fuel poverty in England.

Over the past six years FPAG has consistently articulated policies and concerns in a number of key areas relevant to the impact and effectiveness of fuel poverty policy in England. Recommendations made by the Group have mainly concerned the following seven areas, which are outlined in more detail in [Annex A](#):

- 1. a fuel poverty target, and strategy to end cold homes in England –** the Group has urged Government to develop an ambitious fuel poverty strategy that will seek to increase the energy efficiency of homes and reduce the number of excess winter deaths. It has called for a programme of action which will improve the energy efficiency rating of all fuel poor homes to EPC Band C by 2025, instead of 2030 as was proposed by the Government in 2014. Additionally it has recommended the adoption of an interim target to bring two million low income households up to EPC Band C by 2020, ensuring this prioritises those with the largest fuel poverty gaps. Furthermore, it has asked that the Government should undertake a technology / feasibility review in 2020 to establish the potential for a higher level target of EPC Band B by 2030.
- 2. how sufficient resources for a programme capable of meeting the fuel poverty target could be achieved –** the Group regretted the ending of WarmFront, a tax-payer funded scheme of grants for energy efficiency measures. Such schemes continue to exist in Wales and Scotland – alongside the Energy Company Obligation (ECO) scheme. The Group has argued that revenues which Government expects to receive from carbon taxes should be directed to ‘fuel poverty proof’ poor housing occupied by low-income households. The Group is not convinced the Government has identified sufficient resources to meet the 2030 fuel poverty target and expects this to be clarified in the forthcoming Strategy.
- 3. improvement and development of current fuel poverty policy –** principally the Group has proposed that the bulk of the ECO programme should be directed towards the Affordable Warmth (AW) target, with fuel poor and low-income households prioritised; that Government should change the law to enable wider data sharing between Government departments and energy suppliers for the benefit of fuel poor households and that any proposals to change Winter Fuel Payments (WFP) should involve full consultation. The Group has also asked for Government to consider moving to a delivery approach which relies less on energy suppliers and potentially gives a greater role to local authorities and other locally based organisations who are closer to and more trusted by householders, have better local knowledge and may be better able to provide a comprehensive response to households in fuel poverty.

4. **addressing poverty and low incomes** – the Group has called for Government to undertake a fuel poverty impact assessment of welfare reforms and take action to improve take up of welfare benefits and to pay for sustained, co-ordinated campaigns to encourage benefit take up by allocating a percentage of the estimated total amount of unclaimed benefits to fund delivery of Benefit Entitlement Checks.
5. **protecting consumers in the transition to a low carbon, high cost energy system** and the Department of Energy and Climate Change's (DECC) stated responsibility for "making sure the costs and benefits of our policies are distributed fairly so that we protect the most vulnerable and fuel poor households" – the Group has consistently highlighted the increasingly significant and regressive impact of levies on energy bills, advocating that the Government should estimate the overall contribution of any energy policies, paid for by energy consumer levies, on the 'fuel poverty gap'. We consider the Government should place much more emphasis on paying for Government policies and programmes from taxation.
6. **rural and off-gas households in England** – the Group has called for social tariffs for off-gas households; better consumer protection for households that rely on oil and liquid petroleum gas (LPG) and for Government to consider how low-income households can use the Renewable Heat Incentive (RHI) programme if they lack the financial resources to pay the up-front capital costs. The Group also established its own working group aimed at finding solutions to the challenges of identifying off-gas and fuel-poor households and enabling better co-ordination between energy suppliers, including network distribution companies, and local authorities and other stakeholders. The outputs from that Group's work will provide practical tools, including easily searchable network maps and information that could be used to support off-gas households in recognition of their higher energy costs.
7. **reducing excess winter deaths and morbidity and the health risks associated with cold homes** – the Group has called for Government to significantly reduce mortality due to cold homes; reduce the costs of illness related to cold homes by contributing funding and supporting cross-Government efforts to tackle fuel poverty; ensure the annual Cold Weather Plan for England continues to link to wider work on fuel poverty and provides clear guidance on how support to cold homes can be delivered locally. The Group has also asked that Health and Wellbeing Boards develop good practice on how investment in energy efficiency can improve health outcomes and reduce costs of health and social care support. The Group has asked that consideration is given to shifting NHS resources from acute services to preventative measures, including fuel poverty alleviation.

## **Has the Group made a difference?**

FPAG was set up to provide scrutiny, challenge and policy advice. It does this through regular meetings with officials, and Ministers, responsible for fuel poverty policy and by responding to consultation papers throughout the year. It provides advice and challenge, but there is no obligation on Government to heed the advice or change its policies as a result of the Group simply doing its job.

### **Persistent, expert and constructive**

The Group has provided persistent, expert and constructive advice and challenge on present policies and practice in tackling fuel poverty. It took a leading role in contributing to the Hills review of fuel poverty, and the subsequent development of the proposals for a new fuel poverty target and strategy, for England. It also helped to raise awareness that the Government was going to miss its original statutory target to eradicate fuel poverty by 2016.

### **Complex policy development**

Members have also worked through sub-Groups to engage in depth with Government on complex policy development. For example in 2014 – surrounding the decisions to extend the ECO programme to 2017 – Group members showed how basing suppliers' ECO targets on volume of energy sold would have a more progressive impact on consumers' bills than basing targets on number of customers, and were pleased when the Government accepted our recommendation. The working group which FPAG established to look at solutions for off-gas households has been highly productive on both policy and practical tools which could make an important difference to fuel poor households in England. This Group has involved a significant number of stakeholders across Great Britain working together. Details of the members of the Group can be found at [Annex B](#).

### **Strengthened role**

The fact that the Government is now proposing to strengthen the role of FPAG going forward is the strongest indicator we have of the value of advice and challenge the Group has provided. That is due to the efforts of individual members of the Group, whose contributions of time (thanks to employer support), knowledge, commitment and expertise should be acknowledged.

### **Still work to do**

Nevertheless, a simple review of recommendations made in the Group's annual reports and responses to Government consultations ([Annex A](#)) suggests that the Government has yet to take on board or respond to a number of important and specific proposals from the Group. For example there has been no fuel poverty impact assessment of welfare reforms; the future fuel poverty targets proposed by the Government are not as ambitious as the Group thinks they should be; and the scale and nature of resources available to tackle fuel poverty in England is unlikely to be adequate to meet the challenge. For this reason we have taken the opportunity in the next section of this report to provide advice to 'new FPAG' on the issues that we consider should be at the top of their agenda when their work starts, hopefully later this year.

## Looking forward – priorities for the new Fuel Poverty Advisory Group

The new Fuel Poverty Advisory Group (FPAG) will play a critical role in supporting and challenging the Government in its ambition and approach to tackling fuel poverty. The putative new fuel poverty strategy, underpinning the new fuel poverty target, presents fresh opportunities for the new FPAG to fulfil its responsibility for monitoring progress and recommending corrective action where necessary.

In this section we suggest key priorities for the new FPAG's work, building on our experience of holding past Governments to account. Many of the issues we highlight here are also ones we expect the Government's fuel poverty strategy to address since it needs to be clear whether and how the 2030 target will be met, and that will require action and investment by a number of players.

We set out the issues under five headings as follows:

- Resourcing the new fuel poverty target
- Delivering a programme capable of meeting the new fuel poverty target
- Challenges to meeting the new fuel poverty target
- New opportunities for meeting the new fuel poverty target
- Ensuring accountability and monitoring performance.

### **1. Resourcing the new fuel poverty target**

#### **1.1 Primary resources**

Improving the homes of fuel poor households to a minimum Energy Performance Certificate (EPC) Band C standard by 2030 will require significant resources, particularly given imperfect targeting and the challenge presented by the relative definition of fuel poverty. Also new Groups of households will fall into fuel poverty over that period following improvements to the homes of existing fuel poor households. We are not convinced that the Government has identified sufficient resources to meet the 2030 target and expect the new FPAG will wish to give early priority to scrutinising this issue.

The Committee for Climate Change (CCC) estimates that it would cost £18 billion to improve the homes of fuel poor households to the target EPC Band C, although this assumes perfect targeting of fuel poverty. That equates to £1.2 billion a year with a target date of 2030 or £1.8 billion a year with a target date of 2025, as recommended by FPAG. Verco estimates it would cost £26 billion to improve the homes of all 4.7 million low income households to EPC Band C or £1.7 billion a year with a target date of 2030 or £2.6 billion a year for a target date of 2025.

FPAG considers it essential to improve the homes of all low income households, rather than 'LIHC fuel poor', households alone. We consider this would address the difficulty of accounting for 'churn' arising from the relative LIHC (low income high cost) definition and make the delivery and targeting of programmes much more straightforward.

Clearly, the current level of investment in energy efficiency measures in households likely to be fuel poor, at around £460 million a year,<sup>4</sup> is nowhere near sufficient. A number of recent research reports have suggested that an ambitious fuel poverty programme represents a very cost effective investment, particularly if part of a broader programme to improve the homes of all consumers. Cambridge Econometrics, for example, found that a programme designed to provide full grants to low income households and zero interest loans to able to pay households to improve homes to an EPC Band C standard would result in:

- a £3.20 return for every £1 invested by Government in terms of increased GDP
- £1.25 return in tax revenues per £1 of Government investment due to increased economic activity.<sup>5</sup>

The report argues that such a programme would in effect be self-financing if a whole economy view was taken by Government.

However, these arguments have clearly not yet been taken on board by Government. Energy efficiency expenditure appears to be considered a drain on limited public finances rather than an effective investment opportunity for the economy as a whole.

The new FPAG could play a significant role in helping to make the case for increased investment in energy efficiency measures. This is essential if the Government is to meet its proposed 2030 target or the more ambitious 2025 target advocated by FPAG. This may entail working with other Government advisers, such as the CCC, in developing the economic case.<sup>6</sup>

### Recommendation 1

Further resources than currently committed are required to achieve the 2030 target. The new FPAG, with other bodies such as CCC, should work with DECC and Treasury to improve awareness and understanding of the potential benefits to the economy of energy efficiency investment.

## 1.2 Other potential sources of resources

### *Health budgets*

DECC has carried out some excellent work, in conjunction with the London School of Hygiene and Tropical Medicine, on monetising the health impact of home energy efficiency improvements.<sup>7</sup> The Impact Assessments for the new private rented sector (PRS) regulations and ECO estimated that health benefits accounted for 15% of the overall benefits arising from the two policy initiatives.

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<sup>4</sup> Estimated proportionate share of ECO AW and CSO for England.

<sup>5</sup> Furthermore, these estimates do not include health benefits and reductions in health and social care costs arising from warm, healthy homes.

<sup>6</sup> CCC (2014) *Meeting Carbon Budgets* – 2014 Progress Report to Parliament.

<sup>7</sup> The Health Impacts of Domestic Energy Efficiency Measures (HIDEEM) – see DECC, 2014, *Cutting the cost of keeping warm* for brief description.

The International Energy Agency has estimated that energy efficiency programmes could potentially deliver \$99 billion in annual savings for Europe's public health sector by 2020.<sup>8</sup>

This suggests preventative measures to tackle cold-related ill health through home energy improvements may be more cost effective than interventions to treat the symptoms of cold homes (for example cardiovascular disease, mental health problems, strokes, lung cancer, cardiopulmonary disease, asthma etc). We consider there is a strong case for joint Department of Health (DoH)/DECC pilot energy efficiency projects, with a view to expansion to a major, referral based programme along the lines of the proposals in the draft National Institute for Health and Clinical Excellence (NICE) guidance.<sup>9</sup>

### *Allowable solutions*

The 'Allowable Solutions' provision, in which new build developers fund energy efficiency retrofits in existing homes (to help meet the zero carbon standard for new homes), could also provide a potential source of resources to tackle fuel poverty. Citizens Advice research found that on projected rates of house building, Allowable Solutions could provide around £190 million a year, enough to improve 397,000 low income households' homes to EPC Band C by 2025.<sup>10</sup>

### *Effective regulation of private landlords*

The PRS is growing rapidly in scale in England and has already overtaken the social housing sector; yet rents are predicted to rise at over twice the rate of incomes over the long term.<sup>11</sup> Despite the apparent economic prosperity of the sector, energy efficiency standards for many such properties in England are appallingly low. Not surprisingly, fuel poverty is therefore extensive in the sector. The 2012 Energy Act provisions for minimum standards in the PRS attempted to help address this problem, although delays in the laying of the regulations, loopholes in the detailed proposals and lack of resources for enforcement, could seriously undermine their effectiveness.

We consider that pressure to improve standards and tenants' security in this sector will grow. New regulated standards, and enforcement of those standards, could bring in new resources with forward-looking landlords increasingly recognising the need to invest in their businesses. The new FPAG could therefore investigate the potential contribution that private landlords could make towards achieving the 2030 target as a result of more effective regulation, coupled with any necessary advice and support.

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<sup>8</sup> IEA, 2014, *Capturing the multiple benefits of energy efficiency*, IEA

<sup>9</sup> NICE, 2014, *Public health draft guideline – Excess winter deaths and morbidity and the health risks associated with cold homes*, NICE

<sup>10</sup> Citizens Advice, 2014, *Raising standards, cutting bills*, Citizens Advice

<sup>11</sup> Stephens M et al, 2014, *What will the housing market look like in 2040?*, JRF

### *A new standard for social housing*

We were very supportive of the previous Government's proposal to set a new Warm Home Standard for social housing in England. According to the Strategy, "*this standard will help to raise the energy efficiency of social housing from around SAP 59 to at least 70 (by 2020), radically reduce emissions, and make a real impact to reduce energy bills for tenants. It will also enable industry to develop the capacity to roll out these technologies across the residential sector more widely, and make a significant contribution to job creation over the period.*"<sup>12</sup>

We also note the Scottish Government's recent introduction of new energy efficiency standards for social housing. We think the new FPAG could explore the potential for an equivalent standard for England and work with housing organisations to identify potential resources for meeting the standard and the contribution this will make towards meeting the fuel poverty target.

### **Recommendation 2**

The new FPAG should work with DECC and other Government departments to identify new potential funding sources for achieving the fuel poverty target, including health budgets, better regulation of the private rented sector, a new standard for social housing in England and 'allowable solutions'.

## **2. Delivering a programme capable of meeting the new fuel poverty target**

### **2.1 The Energy Companies Obligation (ECO)**

The Government consultation on the draft fuel poverty strategy makes it clear that '*as it stands in 2014, we do not have the complete package of policies that will deliver the (fuel poverty) target.*'<sup>13</sup>

One of the fundamental weaknesses of the current suite of policies is the almost sole reliance on the ECO to improve the energy efficiency of fuel poor homes in England.<sup>14</sup> We accepted that the former Warm Front programme had its weaknesses and indeed made many suggestions for improving the scheme. However, the substantial cut in 2010, followed by complete abolition in 2013, ended over 30 years of public funding for improving the homes of fuel poor homes in England. Coupled with the failure to introduce a replacement for the Decent Homes Programme in social housing, a long history of gradual programme improvements that drew on accumulated knowledge and experience came to an abrupt end.

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<sup>12</sup> CLG and DECC, 2010, *Warm homes, greener homes – a strategy for household energy management* HM Government

<sup>13</sup> DECC, 2014, *Cutting the cost of keeping warm*

<sup>14</sup> FPAG acknowledges that the Autumn Statement committed to investing £25 million for first time heating systems in off gas properties in England.

There are arguably many benefits to supplier obligation programmes, for example the mass delivery of low cost energy efficiency measures. However, energy companies are now expected to carry out a role to which they are not best suited, namely the delivery of expensive, high cost energy efficiency measures to consumers who are often in very vulnerable situations. The examples below illustrate some of the current problems with using ECO to tackle fuel poverty:

- **Single measures** – the most convenient way for energy suppliers to meet their Home Heating Cost Reduction Obligation (HHCRO or AW) target is to install single measures, mostly boilers, since boilers offer the single largest heat cost reduction. Following boiler installation, the marginal heat cost reductions from additional measures fall. Suppliers therefore find it more cost-effective to move on to the next household and install another boiler than install a full package of measures. Recent research found that low income households were receiving on average 1.2 measures, compared to the average of 3.1 measures required to reach EPC Band C.<sup>15</sup>
- **The mix of measures available** – needs to be far broader than those that are in practice (as opposed to theoretically) available under ECO to meet the fuel poverty target. Boilers, cavity wall, loft and solid wall insulation (with the latter accounting for a very small proportion) represent 93% of measures delivered to low income households to date. To achieve Band C, these four measures would comprise only 39% of all the measures required.<sup>16</sup>
- **Eligible households** – suppliers often refuse measures to households who meet AW eligibility criteria because they are not considered cost effective due to ECO scoring criteria. Examples include pensioners with long-term health conditions or households with no heating or hot water.
- **Some suppliers have varied their offers** – over the lifetime of the obligated period, for example clients generally received free boilers at the beginning of the current ECO period whereas some suppliers now expect the customer to contribute towards the costs. This complicates the promotion and communication of offers at a local or national level. We do not think low income households should have to contribute towards costs. Many organisations that could help deliver ECO (or refer households towards the programme) do not have the confidence to do so.
- **Vulnerable households** – in the most severe fuel poverty are frequently difficult to identify and resistant to offers of help. They also often require extensive works, including general repairs, to their homes and other forms of support, such as care needs, and advice on benefits and addressing multiple debts. Energy companies and their supply chain installers are often not well suited to carry out these wider roles and ECO is not designed to address multiple needs.

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<sup>15</sup> ACE and Energy Bill Revolution, 2014, *ECO and the Green Deal*, ACE

<sup>16</sup> *ibid*

Some FPAG members consider the above problems could be rectified by introducing a system of 'deemed scores' for ECO measures – that is assigning modelled carbon and heating cost savings to measures rather than the current use of 'rdSAP' (reduced data SAP) scores for assessing performance. Some FPAG members advocate mandated referrals – that is requiring suppliers to install free measures in the homes of households referred to them from certain agencies, such as those in the health sector.

FPAG, the CCC and the Energy and Climate Change Select Committee have also recommended targeting the whole, or the vast bulk, of ECO at low income households. However, while FPAG considers these proposals might help, the problems are more fundamental and relate to structural limitations of ECO as the sole major fuel poverty programme.<sup>17</sup> We consider a parallel, publicly-funded programme is required to fill the considerable gaps within ECO or any alternative supplier obligation programme. We note that the devolved Governments have reached similar conclusions. We make suggestions as to the possible shape of a publicly-funded programme below.

### Recommendation 3

The new FPAG should make the case for a publicly-funded programme for England that complements ECO and provides direct assistance to fuel poor households.

#### 2.2 A publicly-funded, locally-delivered programme

There is growing pressure to decentralise the delivery of energy efficiency and fuel poverty programmes, with local agencies such as local authorities playing a key role. This approach is being adopted in most parts of the United Kingdom except England. The Scottish Government's fuel poverty programme uses local authorities to deliver area-based schemes, alongside a national, referral scheme for priority households outside the initial wave of area schemes. Local authorities are also encouraged to bid for additional funds to meet specific needs in their area. Northern Ireland is similarly moving towards area-based schemes in which action is focused on very small areas with particularly high levels of fuel poverty. The Welsh Government runs a national referral scheme, NEST, and an area scheme, Arbed in deprived areas.

The Community Saving element of ECO (CSCO) is intended to encourage energy suppliers to implement area-based schemes. However, we question the ability of some energy suppliers to most effectively operate local-area schemes, given that they do not always have local contacts and operational structures. This may in part explain poor current achievement with the programme, particularly the rural sub-obligation.

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<sup>17</sup> We note Labour's proposal to reduce the role of fuel companies to the collecting of funds into a central pot for subsequent delivery by other agencies. This is not a supplier obligation as currently understood but rather a route for generating funds via consumer energy bills. It becomes in effect a straightforward tax.

CSCO, like ECO as a whole, entails considerable compliance costs and essentially is based on a system of the Government 'second guessing' market responses to policy 'triggers', rather than achieving the desired policy outcomes through direct intervention.

We consider there to be a strong case for direct Government funding and oversight of energy efficiency programmes for low income households, potentially in conjunction with broader programmes for all households. We also consider that area-based approaches could play a much greater role than has hitherto been the case. It is essential area-based approaches are complemented by a referral programme for priority households who live outside initial areas benefitting from improvement works.

Greater decentralisation of delivery would improve the consumer experience and allow local agencies to address the particular circumstances of households and housing in their area. It would also allow greater integration of fuel poverty and energy efficiency services with important related services also delivered locally, such as income maximisation advice, public health, NHS services and urban and rural regeneration initiatives. A supplier obligation programme could still play a role but as part of a broader package of support in which public sector oversight, coordination and accountability plays a critical role.

We recognise that there are many questions that would need addressing should policy move in this direction (quite apart from finding the resources for such a programme), for example:

- What role should local authorities and registered social landlords (RSLs) have?
- How might resources be allocated to local areas and to what extent should competition play a role?
- Should new statutory duties be given to local authorities, to accompany ring-fenced funds?
- What is the appropriate balance between area-based approaches and referral systems?
- How do we ensure effective involvement from the health, social care, voluntary and community sectors?
- How do we ensure effective delivery and accountability?

Several members of the current FPAG have carried out work to address these issues. For example the Local Government Association (LGA) has called for a new model to replace the ECO from 2017 in which local authorities have a central commissioning role to more efficiently and better target delivery of energy efficiency improvements. Locally-led delivery would also bring the opportunity to maximise impact by applying the approach adopted by the Community Budget pilots.

This has seen the successful alignment of budgets from a range of public sector organisations on the basis of place, which is already bringing significant savings to particular public service areas while improving delivery.<sup>18</sup>

The ECO provides the main, but not the only source of funding for improvements. An opportunity exists to radically review the delivery model taking into account each of the sources of funding that are spent on energy efficiency, tackling fuel poverty in an area as well as the savings that can be made in health treatment for cold related illness. A local approach including the alignment of budgets to tackle the cause of fuel poverty and its health impacts has the potential to markedly increase spending power. It would allow prioritisation against local need by councils working in partnership with local and national stakeholders to comprehensively tackle the issue.<sup>19</sup> Citizens Advice has commissioned a major project to address these and many other issues, which is due for publication in spring 2015.

### Recommendation 4

DECC should charge the new FPAG with setting up a sub-Group, involving Government departments, local Government, housing associations, managing agents, health bodies and NGOs to develop detailed proposals for decentralised delivery. This should build upon the work of the LGA, local authority experience and evidence from the forthcoming Citizens Advice project. The work should consider how a local delivery model could help meet the fuel poverty target.

### 2.3 Off-gas and PRS homes

Fuel poverty is particularly extensive in these sectors and presents substantial challenges to meeting the fuel poverty target.

#### Off-gas

The average fuel poverty gap for off-gas households, at over £1,000 a year, is over twice the gap for those with gas heating. FPAG has long pressed for policy to address the particular difficulties of providing affordable warmth to these households. We therefore welcomed the Autumn Statement commitment to make £25 million available for first time heating systems in off-gas properties in England as a small step towards addressing the problem.

The FPAG off-gas working group has carried out an extensive programme of work to identify solutions to tackling fuel poverty in off-gas homes and has urged the Government to provide additional resources for this. Essentially, the work includes the mapping of homes on the gas network, a review of current policy support to inform recommendations for improvement and a review of current consumer protection mechanisms with a view to identifying gaps and options for improvement.

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<sup>18</sup> Whole place community budgets pilots established the principles aligning budgets locally to achieve more integrated service delivery and very significant savings in service delivery <http://bit.ly/1DICZMc>

<sup>19</sup> See the LGA response to the fuel poverty strategy consultation <http://bit.ly/1ELgYrM>

While there is still considerably more work to do, there is an emerging consensus that different policy solutions are required for urban off-gas consumers, many of whom live in flats and use electricity, and rural off-gas consumers, who generally live in houses and rely on heating oil, LPG and solid fuel.

The Group also considers there to be potential for both improved integration of existing programmes, such as ECO, RHI and the fuel poverty network extension scheme and reform of these programmes so that they better meet the needs of low income off-gas consumers. Alternatively, there may be a case for establishing bespoke programmes specifically targeted at low income rural and urban off-gas consumers.

There is also evidence that Scottish and Welsh Government fuel poverty policies are more successful at tackling fuel poverty among off-gas consumers, in part because the availability of publicly-funded schemes helps lever in funds from GB-wide programmes (ECO, fuel poverty network extension, Distribution Network Operators (DNO) social obligation initiatives).

### Recommendation 5

The off-gas working group should complete its programme of work to identify solutions for low income off-gas consumers and provide regular reports on progress to new FPAG. The new FPAG should monitor the effectiveness of the mapping tools the Group is developing, as well as the effectiveness of Government policies at meeting the needs of low income off-gas consumers.

#### *Private rented sector*

About 20% of private rented tenants are fuel poor – twice the rate for all households. 1.4 million low income private tenants live in homes below EPC Band C. Meeting the fuel poverty target among private tenants therefore represents a particular challenge. We welcomed the regulation to improve private rented homes to EPC Band E by 2018. However, we have not supported the provision allowing landlords to let properties below Band E if they have made improvements that can be funded through Green Deal or ECO. We have also argued that all private rented properties, including Houses in Multiple Occupation (HMOs), should be included within the scope of the regulations, not just those with a valid EPC.

The Housing Health & Safety Rating System (HHSRS) already gives local authorities powers to require landlords to improve homes containing Category 1 hazards of 'excess cold'. It is essential that this existing duty is maintained and that the new regulations enhance HHSRS enforcement. However, we are very concerned about the current lack of enforcement of HHSRS. The reasons for lack of action include:

- lack of clarity as to how to assess excess cold;
- the expense of carrying out inspections and enforcement; and
- the increasing scarcity of local authority resources.

We would like Government to, at the very least, issue guidance to local authorities, defining B and F and B and G rated properties as automatically constituting a Category 1 hazard.

Given that the new regulations will entail additional burden on already stretched local authority Environmental Health Officers, we consider ring-fenced funding should be made available to authorities to enforce both HHSRS and the new regulations.

We are concerned that tenants will be unwilling to ask landlords to enforce their rights to repairs, including 'reasonable energy efficiency improvements', due to fear of eviction. This is despite the properties (and landlords) potentially falling foul of minimum safety requirements within the HHSRS. We consider the Government should address this situation at the earliest possible opportunity and give tenants protection from retaliatory eviction.

Finally, with respect to helping landlords meet minimum standards, we consider the two principal means for achieving this are an enhanced role for LESA (Landlords Energy Saving Allowance) and the establishment of a register of private landlords. We note that in 2009, the DCLG 'Impact Assessment of a national register for landlords' stated: "*We want to help local authorities enforce legislation designed to protect the most vulnerable and we want to ensure that the vast majority of good landlords are not stigmatised by virtue of the existence of the few who are unprofessional and, sometimes, criminal in intention*". A landlords' register would provide an effective means for distributing information to landlords about both their duties and the various financial incentives that would help them invest in their properties.

### Recommendation 6

The new FPAG should encourage the Government to improve regulation, and the enforcement of regulation, in the private rented sector which is essential for meeting the fuel poverty target in the sector. National and local Government advice and support to private landlords is also required to help landlords invest in their properties.

#### 2.4 Income measures and advice

**Income maximisation advice**<sup>20</sup> has an important role to play in tackling fuel poverty. Citizens Advice's annualised monitoring, for example, of the outcomes of advice it provided in 2013 found that successful claims resulted in an average increase in income of £6,300 per client with an on-going gain and £2,400 per client with a one-off gain.<sup>21</sup> Similarly, Warm Zones' income maximisation service assisted more than 700 households to claim benefits worth over £3.5 million in 2013.

Outcomes of this scale have a dramatic impact on people living in fuel poverty, as well as fuel poverty statistics. Furthermore, eligibility for energy efficiency programmes, such as ECO AW, is based on receipt of certain means-tested benefits.

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<sup>20</sup> In brief, advice on benefits and tax credits entitlement and dealing with multiple debt.

<sup>21</sup> Statistics based on a sample of 360,000 advice outcomes for 212,000 clients using monitoring procedures agreed across all the major advice providers.

Advice to help people claim their entitlement to such benefits therefore reduces the fuel poverty gap on two fronts, by increasing their income and by reducing their fuel costs following the 'passporting' through of clients to energy efficiency programmes.

The Warm Front programme, prior to the 2010 cuts, provided benefits advice alongside energy efficiency measures, including an innovative arrangement between the Pensions Service and Warm Front in which successful claimants were automatically referred back into Warm Front. Home Energy Scotland, which forms part of the Scottish Government's fuel poverty and energy efficiency programme, offers every caller a free benefits check.

While an estimated £16 billion a year of benefits remain unclaimed each year, it is still likely that the proportion of low income households not claiming their full entitlement is considerably lower than those requiring improvements to their homes to reach a Band C standard. Warm Zones, for example, found that about 5% of households helped went on to make a successful claim. Nevertheless, the Citizens Advice statistics suggest that for those under-claiming benefits, a successful claim will almost certainly have the biggest single impact on a household's fuel poverty status – far larger than even an extensive energy efficiency retrofit (based on an average £300 a year fuel bill saving by improving a home to Band C).

FPAG was therefore critical of the Government's decision to remove benefit entitlement checks from Warm Front in 2010. We have also called on the Department for Work and Pensions (DWP) to fund a sustained, co-ordinated campaign to encourage benefit take up by allocating a proportion of the total amount of unclaimed benefits to fund delivery of Benefit Entitlement Checks.

### Recommendation 7

Given that fuel poverty results from a combination of low income, high energy costs and poor energy efficiency it is essential that the Government takes steps to improve incomes. Although the new target is focused on energy efficiency, the new FPAG should stress the value of including income maximisation advice as an integral element of fuel poverty programmes.

The welfare reform programme is intended to address the current complexity of the benefits and tax credits system and encourage work incentives – people are currently unsure of the gains from moving or changing their hours of work, particularly if the change is temporary.

Universal Credit aims to reduce complexity through administration of benefits by one department, a requirement on claimants to make only one claim and a potential improvement to take-up by bringing together different benefits and tax credits. However, there are major concerns about implementation of the new system – errors can have a devastating impact on claimants if they do not receive their entitlements.

We have expressed concern about the Government's delay in carrying out an assessment of the impact of the welfare reform programme on fuel poverty, particularly given its implications for means tested energy efficiency programmes, the WHD scheme and income maintenance measures related to fuel costs (WFP and CWP).

The expected impact of the welfare reform programme on fuel poverty should be reflected in the forthcoming fuel poverty strategy.

### Recommendation 8

The new FPAG should examine any Government fuel poverty impact assessment of welfare reform and make recommendations to address any specific elements that have a negative impact on fuel poverty and frustrate the achievement of the 2030 target.

Welfare payments and income measures specifically targeted at fuel costs include include Cold Weather Payments (CWP), Winter Fuel Payments (WFP), and the Warm Homes Discount (WHD) – in the sense that eligibility for the latter is linked to entitlement to certain benefits. It is arguable the Government Electricity Rebate comes into this category. The general level of, and up-rating of, benefits and tax credits also has a critical bearing on fuel affordability. This is particularly the case given that fuel costs account for a much higher proportion of low income households' budgets than those of better off households.

We have frequently discussed WFPs and their contribution towards tackling fuel poverty. If WFPs are considered part of overall fuel poverty spend, they represent by far the largest single expenditure item – much higher than energy efficiency spend which is generally considered the most effective long-term solution to fuel poverty (but of course not the only solution).

Our general position is that the problem lies more with the paucity of energy efficiency spend than any perceived generosity of WFP. We consider it important to preserve the concept of universal provision, given the poor take-up of other benefits by older people. However, if a future Government takes steps to amend this programme, we consider it essential that any proposed 'savings' are re-directed to other forms of fuel poverty support, rather than being absorbed into general public expenditure.

Government modelling of the impact of different single interventions for tackling fuel poverty has found that the WHD is more cost effective than installation of some energy efficiency measures. There is therefore a strong case for maintaining the scheme in the long term. However, we would like to see closer alignment between eligibility for these payments and those in fuel poverty, particularly with respect to the fuel poverty gap. This implies opening up eligibility for the core Group element of the scheme to low income families (which would require new primary legislation) and possibly altering the rate according to the energy performance of homes, for example by offering a higher rate to those in EPC Band B than F and G homes.<sup>22</sup> However, given the lack of EPC coverage, a simple alternative would involve offering a higher rate to off-gas homes where data work may provide a targeting solution.

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<sup>22</sup> There may be a case for adjusting other fuel cost benefit payments so that they better reflect the differential energy performance of homes. However, this would have implications for subsequent improvements to home energy performance.

## Recommendation 9

The new FPAG should encourage the Government to improve the effectiveness of ‘fuel cost’ benefit payments and the WHD at tackling fuel poverty, particularly with respect to reducing the fuel poverty gap.

### 3. Challenges to meeting the new fuel poverty target

#### 3.1 Rising energy costs

While FPAG welcomes the recent modest cuts in energy prices, the long-term trend is likely to be one of continual increase. As such rising household costs represent a constant challenge to fuel poverty policy. Under the former 10% definition of fuel poverty increases in the cost of energy represented the single largest cause of the substantial growth in numbers that took place after 2004. The poorest 10 per cent of households have seen their energy bills rise nearly twice as fast as other households, with expenditure on electricity and gas rising by 40 per cent and 53 per cent since 2010.

**Table 1: Average change in weekly household energy spending by income decile, 2010 – 2013 (percentage change)**

	Electricity	Gas
Lowest decile	39.7%	53.3%
Second decile	30.5%	33.8%
Third decile	25.8%	41.3%
Fourth decile	26.1%	37.2%
Fifth decile	23.7%	32.6%
Sixth decile	16.8%	22.5%
Seventh decile	18.1%	31.6%
Eighth decile	26.5%	21.8%
Ninth decile	17.4%	10.4%
Tenth decile	7.5%	23.9%
<b>All households</b>	<b>22.2%</b>	<b>29.2%</b>

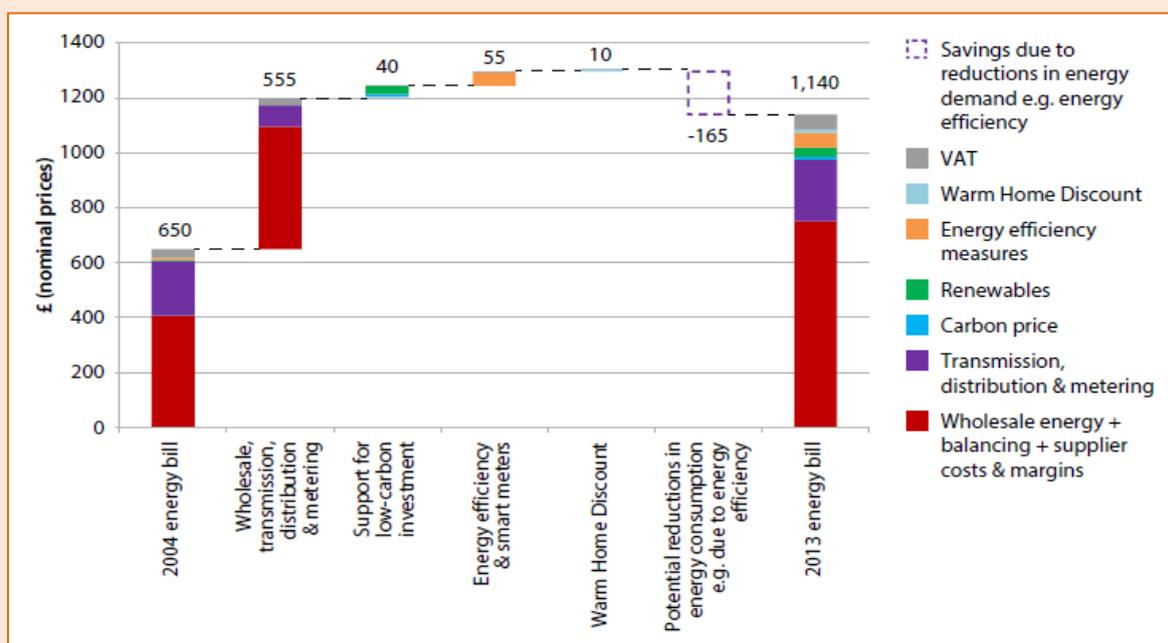
Source: ONS, Family Spending, various years

Notwithstanding recent modest drops in energy costs, the long-term trend of rising costs will continue to present an upward pressure on the fuel poverty gap. DECC projects the aggregate fuel poverty gap will rise from around £1 billion in 2012 to over £1.1 billion in 2014 with further growth predicted over the medium term unless corrective action is taken.<sup>23</sup>

DECC's latest analysis of energy price trends shows that wholesale energy costs, which make up around half of a household energy bill, have been the main driver of increases in energy prices and are estimated to have contributed between around 56% and 71% of the increase in household energy bills between 2010 and 2013.<sup>24</sup>

Policy costs currently represent 7% (£89) of the household electricity and gas bill; this is set to double to 14% in 2020.<sup>25</sup> The CCC recently found that out of a typical annual energy bill of £1,140 in 2013, householders paid around £55 to support energy efficiency schemes and £45 to support low-carbon electricity and the carbon price – see graph below.

**Figure 1: Changes in the typical dual-fuel bill (2004 to 2013)**



Source: CCC calculations based on DECC Quarterly Energy Prices & Ofgem's Supply Market Indicators.

Note: Numbers may not sum due to rounding.

The CCC also found that a further £55 would be added to average annual bills from 2013 to 2020, mainly to support investment in low-carbon electricity and a further £75 from 2020 to 2030 due to assumed increases in the carbon price.<sup>26</sup>

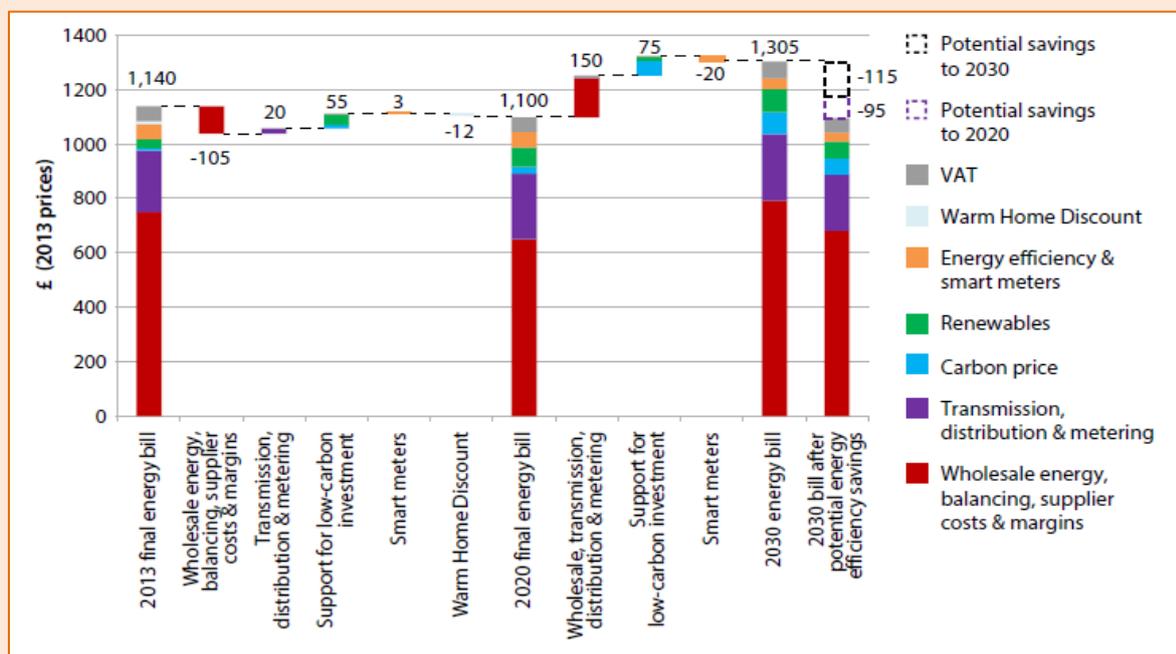
<sup>23</sup> DECC, 2014, *Annual fuel poverty statistics report 2014*.

<sup>24</sup> DECC, 2014, *Estimated impacts of energy and climate change policies on energy prices and bills*

<sup>25</sup> *ibid*

<sup>26</sup> Committee on Climate Change, 2014, *Energy prices and bills – impacts of meeting carbon budgets*

Figure 2: Changes in the typical dual-fuel bill (2013, 2020 and 2030)



Source: CCC calculations.

Note: Numbers may not sum due to rounding. Potential savings at 2030 prices.

Despite this, DECC estimates bills are, and will continue to be, lower than they otherwise would be without these policies. However, FPAG considers that the increasing cost of levy-funded policies on energy bills is regressive. We are also concerned that the Government has not investigated their impact on the 'fuel poverty gap'. The new FPAG should press for such an analysis and for the Government to monitor the distributional impact of policies, as averages do not provide the full picture.

CSE's report for FPAG and Consumer Futures *'The Hardest Hit: Going beyond the mean'* highlighted that, in 2020, consumers with electric heating (11% of all consumers) will be most affected by the cost of Government policies, as well as tending to have lower incomes than those with other forms of heating. These consumers are projected to pay 19% of the total cost of energy policies yet will only receive 7% of the benefits. Currently, only 27% of consumers with electric heating receive some form of benefit from energy policies, compared to 40% of all consumers.<sup>27</sup>

It is also important that the new FPAG monitors the rollout of smart metering, and in particular assesses whether assumed benefits to householders are realised in practice. DECC's Impact Assessment (2014) suggests that consumption will fall by 3% for electricity and 2% for gas. Initially smart meters are predicted to increase bills – short term increase expected to peak in 2015 (£6 per household/0.4% of bill) – to fund the rollout but from 2017 bills are expected to fall. By 2020, DECC expects savings to average around £26 per annum per household.

<sup>27</sup> CSE, 2014, *The Hardest Hit: Going beyond the mean*, Consumer Futures <http://bit.ly/1v4brE8>

Finally, the new FPAG should review the outcome of the current CMA investigation into the energy market, which has a statutory deadline of 25 December 2015, to understand whether any future changes to the market could adversely impact the fuel poor.

### **Recommendation 10**

The new FPAG should monitor the impact of future price changes, particularly those relating to policy costs and their uneven distributional impact on fuel poverty, and make recommendations as to how they might be ameliorated. It is particularly important that domestic policy measures explicitly address the needs of low income and fuel poor consumers.

### **3.2 Impact of public expenditure cuts and the ‘austerity’ programme**

We note that there have been and continue to be significant reductions in public expenditure and welfare provision which are likely to affect services used by fuel poor households, for example services provided by local Government or charities which rely on public funds to support their work. We are concerned that the Government’s new fuel poverty strategy and target may assume current levels of service and support for debt advice, budgeting, income maximisation and other welfare support.

In these circumstances investments in energy efficiency sufficient to achieve objective measures may be frustrated – for example if the energy performance of properties improve but levels of fuel poverty stand still or increase because other, complementary services are no longer in place. It will be important that the Government’s new Strategy sets out clearly its assumptions about the contribution which local services are expected to make to supporting fuel poor households so that any shortfall in reality is identified and addressed at an early stage.

### **3.3 ECO shortfall**

FPAG expressed concern about the 33% cut to CERO in the 2013 Autumn Statement. While the AW and CSCO were protected, the cut had a substantial impact on a number of schemes that social landlords had committed substantial resources to developing. The original impact assessment estimated that the cut reduced the total amount of ECO resources from £1.3 billion to £950 million a year. However, in October 2014, DECC updated its Impact Assessment and now estimates that the average annual delivery cost passed through to consumers for the two year period to 31 March 2017 will be between £787 million and £820 million.

Given current delivery rates, it therefore appears highly likely that all, or the majority of energy companies, will meet their ECO targets before March 2017. If that is the case there may be a considerable hiatus between the end of ECO and the beginning of its successor programme, with no support for vulnerable households and the concomitant risk of reduced capacity and job losses in the energy efficiency industry.

#### 4. **New opportunities for meeting the new fuel poverty target**

Alongside challenges to achieving the fuel poverty target which we identify above we also consider there are some significant new opportunities and initiatives which could make a contribution to meeting the fuel poverty target. These include:

**Smart meter rollout:** suppliers will offer smart meters to every household in Britain by 2020. The Government envisages consumers will use the detailed information on energy use available from the new meters to reduce their energy use, particularly due to wastage. There is potential to use the rollout programme to help low income and vulnerable consumers save on their energy through tailored support provided at the time of meter installation. Citizens Advice and National Energy Action (NEA) have carried out research to show how an 'Extra Help Scheme' could help make sure vulnerable consumers fully benefit from the rollout programme.<sup>28</sup>

**Demand reduction and demand-side response:** FPAG considers policies to encourage demand reduction and demand-side response should play a much greater role in energy policy. The new electricity capacity market in particular could potentially help encourage this but not in its current form. It only values the cost of a kWh generated or saved and not, for example, the additional social value of reducing cold-related illnesses, the potential for green jobs nationwide or the environmental value of reducing greenhouse gases. Furthermore, the administrative costs of aggregating savings by domestic consumers are currently considerable and present a major barrier to their participation in the scheme. Nevertheless, the new FPAG should encourage DECC to explore options to encourage participation, such as links to ECO brokerage or possible future area-based schemes and voucher schemes.

**District Network Operators (DNOs):** Ofgem considers DNOs to have a key role to play in identifying fuel poor and vulnerable customers and delivering solutions (either themselves or by partnering with others). Ofgem has therefore set a range of new social obligations on DNOs, some of which may bring benefits for all network users. For example, measures enabling more efficient use of energy by fuel poor households (through alternate heating technologies or in-home measures) could offset the need for wider network reinforcement. DNOs could also help low income off-gas consumers liaise with gas networks to enable connections to the gas grid, or help identify alternative electric heat technologies or efficiency improvements

**Gas Distribution Network companies:** Ofgem's fuel poverty network extension scheme incentivises gas distributors to connect fuel poor households to the gas network. 77,000 households are expected to gain access to this cheaper heating fuel over the next eight years as a result of the scheme. There are opportunities to link the scheme with DNO schemes and energy efficiency providers to provide a more holistic service.

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<sup>28</sup> Citizens Advice, Extra Help Scheme pilot research, *to be published summer 2014*

**Improved data analysis and monitoring:** the development of new databases and data interrogation techniques, such as the National Energy Efficiency Data framework, EPC register, gas network overlaid with income and benefits data offer new opportunities for identifying and targeting fuel poor households. We would particularly encourage the Government to provide EPC data free of charge to local authorities, as is already the case in Scotland.

**Integration of fuel poverty policy with related policies:** FPAG endorsed the Hills review's recommendation for cross-departmental action to tackle fuel poverty. Our annual reports have included a number of recommendations for action from different Government departments. We have welcomed a growing dialogue between DECC, the Department of Work and Pensions (DWP) – particularly with respect to the WHD – and the Department of Health (DoH) (for example, on the Cold Weather Plan).

We consider there to be further potential collaborations with these departments, for example our recommendation above for a jointly funded DECC/DoH initiative on tackling ill health due to cold homes. We would urge all Health and Well-Being Boards to take on board the NICE recommendations to establish local referral systems and training for front line workers on tackling cold-related ill health.<sup>29</sup>

We would like to see the Department for Communities and Local Government (DCLG) much more closely engaged with fuel poverty policy, particularly with respect to:

- setting and enforcing minimum standards for private rented and social housing
- integration of affordable warmth within wider policies to provide affordable housing
- support for the involvement of local authorities and RSLs in the delivery of fuel poverty
- energy efficiency services and support for community energy initiatives.

**Cross UK nation learning:** as policies between the different nations of the UK diverge there are growing opportunities for cross-nation learning from the experiences of devolved nations as to what works and what is most effective. We would urge the new FPAG to regularly engage with the Scottish Fuel Poverty Forum and devolved nation Governments as a means for encouraging such learning.

**Learning from other countries:** the UK and devolved nations are widely credited with having the most long standing comprehensive policies for tackling fuel poverty. However, there is still much we can learn from other countries, particularly with respect to policies on energy efficiency, building standards, community energy and welfare support. We observe a growing EU interest in fuel and energy poverty policy and would urge the new FPAG to engage with appropriate EU institutions on this.

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<sup>29</sup> NICE, 2014, *Public health draft guideline – Excess winter deaths and morbidity and the health risks associated with cold homes*, NICE

### **Recommendation 11**

The new FPAG and DECC should make sure new and emerging opportunities that could help the Government achieve the 2030 target are proactively and systematically identified and explored.

## **5. Ensuring accountability and monitoring performance**

We welcome the Government's announcement that it will review the fuel poverty strategy regularly and in response to major changes. This is the minimum of good practice we would expect in public policy. More significant are proposals to strengthen public accountability for progress in achieving the 2030 target through reform of the FPAG, holding an annual debate on fuel poverty in parliament and the establishment of a new senior level cross-departmental Group.

Improved accountability is vital in our view. Significant public resources could be deployed towards the fuel poverty target and a significant proportion of existing resources are currently derived from levies on customer bills, with limited reflection of ability to pay. There are significant challenges and opportunities which could hinder and help achievement of the target and the fuel poverty strategy itself is likely to depend on delivery by a variety of players across the economy and a range of programmes and activities which need to be made to work together. Programme management and accountability needs to be strong and effective if it is to succeed.

The new FPAG will wish to work with DECC to establish how it will operate. In keeping with the new commitments to strengthen accountability the Group may wish to establish agreement on all or some of the following:

- a systematic planned approach to scrutiny, by the new FPAG, of routine and periodic reviews of performance of the fuel poverty strategy before reports are published by DECC. Clear KPIs should be established and the Group should be able to scrutinise and challenge reports and audits of performance.
- access to information and the ability to call in or undertake a review of any aspect of the fuel poverty strategy.
- access to expertise and the ability to commission advice and research the Group requires to undertake effective scrutiny.
- access to the cross departmental Group and relevant Ministers at any time.
- access to tools and resources to enable effective publication and communication of the Group's work and advice, including to the media.

Both DECC and the new FPAG will need to consider how effective relationships are made and maintained with key stakeholders across local Government, health services, industry and third sector organisations. It is likely that a more significant programme of outreach, communications and openness will be needed than hitherto, and that there will be a need for greater involvement of stakeholders in problem solving working groups where expert input is required. It will be for DECC and the new FPAG to establish what the proper role of the scrutiny and advisory body – the new FPAG – is in relation to such a programme. It is important that bodies responsible for delivery lead the working groups.

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Finally the new FPAG itself will need to adopt rules for its conduct of business which are consistent with the standards expected of public bodies – including establishing ways of managing conflicts of interest, setting and monitoring its budget and accounting for relevant expenditure within the framework of public expenditure controls.

## Annex A – FPAG recommendations from previous Annual Reports

Recommendations on addressing poverty/low incomes	Outcome/results achieved
<ul style="list-style-type: none"> <li>To develop sustained, co-ordinated campaigns to encourage benefit take up the Government should allocate a percentage of the total amount of unclaimed benefits to fund delivery of Benefit Entitlement Checks. (<i>10<sup>th</sup> and 11<sup>th</sup> Annual Report</i>)</li> <li>To carry out an urgent impact assessment of the effects of welfare reform on fuel poverty which is not currently expected to take place until 2015. (<i>10<sup>th</sup> Annual Report</i>) That the Secretary of State for Work and Pensions considers the effect benefit reforms, including Universal Credit and Pensions, may have on fuel poverty and the new fuel poverty target and strategy. (<i>10<sup>th</sup> Annual Report</i>)</li> <li>That Government explains what action it will take to support poor households who find their bills unaffordable, as fuel price inflation outstrips income growth. (<i>11<sup>th</sup> Annual Report</i>).</li> </ul>	<p>None of FPAG’s recommendations in this area have been acted on by Government. Welfare reforms, including a freeze on the value of benefits for those of working age are likely to have had a negative impact on fuel poverty.</p> <p>It is particularly disappointing that our call for a fuel poverty impact assessment of the welfare reforms has not yet been acted on.</p>
Recommendations on the issue of a fuel poverty target, and a strategy to end cold homes	Outcome/results achieved
<ul style="list-style-type: none"> <li>To declare a strategic intent for an ambitious fuel poverty strategy that will seek to increase the energy efficiency of homes and reduce the number of excess winter deaths and for it to be a clear multi-department responsibility led by DECC. (<i>11<sup>th</sup> Annual Report</i>)</li> <li>The Government should be setting out a programme which will improve the energy efficiency rating of all fuel poor homes to Band C by 2025 instead of 2030. Furthermore, the Government should set a target for a technology / feasibility review to be held in 2020 to establish the potential for a higher level of Band B by 2030. In order to meet Band C by 2025 in the most efficient and cost effective way assistance needs to be targeted at low income households living in properties below EPC Band C. (<i>FPAG response to Cutting the Cost of Keeping Warm</i>) Government should set a revised interim target to bring two million low income households up to Band C by 2020, ensuring this prioritises those with the largest fuel poverty gaps. (<i>FPAG response to Cutting the Cost of Keeping Warm</i>)</li> </ul>	<p>New fuel poverty targets in legislation are based on cross tenure, minimum energy efficiency standards, for all fuel poor households which are required to be met by specified dates.</p> <p>However there is a significant risk that over a million fuel poor households (and many more low income households) will continue to live below the current average energy efficiency rating of the English housing stock by 2025 and no other FPAG concerns have been addressed.</p>

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<b>Recommendations aimed at improvement and development of current fuel poverty policy – principally ECO, data sharing and the future of WFP</b>	<b>Outcome/results achieved</b>
<ul style="list-style-type: none"> <li>• Devote the bulk of the ECO to the Affordable Warmth target and prioritise the fuel poor and low-income households under the carbon target (e.g. solid wall insulation). (<i>9<sup>th</sup> and 10<sup>th</sup> Annual Report</i>)</li> <li>• That in considering the next phase of ECO where the CERO will allow easy to treat measures, that the poor and fuel poor – who are least able to afford measures – are the first to benefit. (<i>11<sup>th</sup> Annual Report</i>)</li> <li>• Initiate the legislative process to extend the data matching powers for customers in receipt of Pension Credit and mandate support through the WHD scheme to all customers in receipt of the CWP and therefore at high risk of living in fuel poverty. (<i>9<sup>th</sup> Annual Report</i>).</li> <li>• Extend [these] arrangements to other benefit recipients to make sure either energy efficiency measures or bill discounts are automatically applied to those most in need. A renewed sense of urgency is required to ensure greater use of data sharing benefits the fuel poor in particular and all consumers in general... the very successful WHD programme should be extended to the wider benefit recipients entitled to receive CWP. (<i>10<sup>th</sup> and 11<sup>th</sup> Annual Report</i>)</li> <li>• Should Government make any proposals to adjust the operation of the WFP, FPAG would expect to be fully consulted because it is clear that this funding is intended to be earmarked for fuel-related spending. Where any adjustments to the system are introduced to better target assistance where it is most needed, remaining funds should immediately be reallocated to ring-fenced energy efficiency investment for the fuel poor. (<i>11<sup>th</sup> Annual Report</i>)</li> </ul>	<p>The Government responded on ECO concerned that changes could raise costs and/or lower carbon outcomes. On suggestions to rebalance the respective scale of the CERO and CSCO obligations the Government does not feel confident to do this without better delivery evidence to support the calculations. They commit to 'actively monitor delivery evidence' with a view to developing possible options for the future. In the interim easy to treat measures are unlikely to be delivered to those households that are most in need of support.</p> <p>The outcome of the Green Levy Review was that the elements of the ECO targeted at low-income households and communities were preserved and extended for a further two years. But there is no clarity on any policy post 2017.</p> <p>WHD will continue until 2015/15 automatic energy discounts will continue to be weighted towards low income pensioner households but there has been no progress on wider data sharing.</p> <p>WFP may be more targeted or taxed in future. It is not clear where any savings might go.</p>

## Fuel Poverty Advisory Group 12th Annual Report

Recommendations concerned with funding for a programme capable of meeting the fuel poverty target	Outcome/results achieved
<ul style="list-style-type: none"> <li>• A precedent has been set through the compensation awarded to industry for the impact of the Carbon Price Floor, EU Emission Trading System (EU ETS) and Contracts for Differences (CfD) policies. FPAG seeks a similarly mitigating policy for a publicly-funded energy efficiency programme to compensate and protect low income households from price rises. (<i>10th Annual Report</i>)</li> <li>• Facilitate the use of carbon tax revenues to fuel poverty-proof poor housing occupied by low-income households. (<i>11th Annual Report</i>)</li> </ul>	<p>Some EU Member States have used the EU-ETS auction revenue to support improving the energy efficiency of homes. According to a recent report 13 countries in the EU have pledged to return part of the proceeds from the EU-ETS auctions to climate and energy efficiency programmes.</p> <p>Member State initiatives are now also required to report on the use of ETS revenues. The UK Government argues that to hypothecate the revenue from auctioning would contravene the national Government's principles on the sound management of public finances.</p> <p>It is not clear if the UK Government will comply the European Commission reporting requirements.</p>
Recommendations concerned with protecting consumers in the transition to a low carbon, high cost energy system and DECC's stated responsibility for "making sure the costs and benefits of our policies are distributed fairly so that we protect the most vulnerable and fuel poor households"	Outcome/results achieved
<ul style="list-style-type: none"> <li>• The <i>8th Fuel Poverty Advisory Group Annual Report</i> pointed out that climate change policies funded through levies on energy bills are inherently regressive since low-income consumers spend a much higher proportion of their income on energy than more affluent consumers. In the <i>9th report</i>, FPAG specifically called for an end to contributions from consumers that bear no relationship to the level of their energy consumption. The <i>10th Annual Report</i> stated: "<i>Levies on bills are regressive. This added burden on poor and fuel poor consumers will mean many households will continue to have to ration their energy use due to lack of income. If the intention is to continue funding energy infrastructure, green and social costs in this way, then consideration must now be given to a more progressive energy charging regime</i>".</li> </ul>	<p>None of FPAG's recommendations have been acted on and these policies will continue to transfer billions of pounds each year of GB domestic energy consumers' money directly to HM Treasury.</p> <p>The Treasury is also applying VAT of 5% on top of the carbon levies.</p>

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<ul style="list-style-type: none"> <li>• The UK's transition to a low carbon economy will have profound implications for all consumers, but particularly so for the fuel poor. Many stakeholders, including FPAG, argue for major intergenerational policy change, the costs of which should be met through Treasury funding and not by costs directly added to consumers' energy bills. This approach, by default, is inherently very regressive. This inequity is compounded when the market intervention is effectively a 'tax' to facilitate low carbon generation to coexist with fossil fuel generation in the competitive energy market and the sums raised subsumed into Treasury coffers. (<i>10<sup>th</sup> Annual Report</i>)</li> <li>• FPAG called on Government to fund the planned exemption for energy intensive users from the costs arising from CfD from taxation and not through costs added to consumers' energy bills. (<i>11<sup>th</sup> Annual Report</i>)</li> </ul>	
<p><b>Recommendations concerned with rural and off-gas households in England</b></p>	<p><b>Outcome/results achieved</b></p>
<ul style="list-style-type: none"> <li>• Eligible households with only electricity and who use another fuel source, such as oil or LPG, as their main heating fuel should receive a social tariff on their electricity bill and a 'heating addition' within their benefits. The 'heating addition' should recognise the additional costs associated with these heating fuels. (<i>7<sup>th</sup> Annual Report</i>)</li> <li>• The Government must work with Ofgem to protect off-gas grid consumers by extending the responsibility for regulating fuels such as LPG and heating oil and the maintaining of Priority Service Registers, safety checks and payment options. We also propose you work with Ofgem to undertake an immediate review to ensure that those using fuels other than electricity and gas for heating their properties benefit from the same consumer protections. (<i>11<sup>th</sup> Annual Report</i>)</li> <li>• RdSAP scoring systems are also causing problems for off-gas grid households – making it difficult to provide cost-effective assistance, and thus reducing the number of households getting help under ECO. FPAG proposes that under the next phase of ECO, there is a solution for off-grid households.</li> <li>• In seeking to explore the most appropriate heat solution for vulnerable households without access to mains gas, FPAG would call on Government to review its Renewable Heat Incentive programme (RHI) and, in particular, whether the scheme could be made more accessible for low-income households. In its current form the RHI requires consumers to pay the up-front installation costs of renewable heating systems. While this enables more affluent households to realise the benefits of their investment it effectively excludes low-income households who lack the financial resources to pay the up-front capital costs. (<i>11<sup>th</sup> Annual Report</i>)</li> </ul>	<p>The ECO has been modified in an attempt to increase delivery off the gas network; the domestic RHI, has been established; an off-gas sub-Group of FPAG was set up and there have been various Ministerial roundtables.</p> <p>Despite this progress, there is limited evidence of the delivery of properly targeted help and support for householders who live off the gas grid and who want to improve the energy efficiency of their homes.</p> <p>FPAG welcomes the commitment in the Autumn Statement to introduce new tax funded resources in England to supplement ECO. The amount (£25 million) is less than a quarter of funding available in the last diminished years of the Warm Front scheme.</p> <p>In addition, while FPAG supported changes to prioritise poor housing occupied by low income households in deprived rural communities or wards, there is a concern that this new fund and the expanded areas may not target households that are in or vulnerable to fuel poverty.</p>

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	<p>It is also highly likely these interventions will only result in targeting denser urban areas on the gas network or urban off-gas properties (i.e. replacing electric storage heaters primarily located in tower blocks) as opposed to rural off-gas – primarily heating oil and LPG boilers.</p>
<p><b>Recommendations concerned with reducing excess winter deaths and morbidity and the health risks associated with cold homes</b></p>	<p><b>Outcome/results achieved</b></p>
<ul style="list-style-type: none"> <li>• To continue to support the Cold Weather Plan and the Warm Homes Healthy People (WHHP) Fund to deliver a co-ordinated action on cold homes and build on its initial success. [<i>10<sup>th</sup> Annual Report</i>]</li> <li>• The Secretary for Health should set a goal to reduce mortality by 30,000 annually and reduce the costs of illness related to cold homes by:             <ol style="list-style-type: none"> <li>a. contributing funding and supporting cross-Government efforts to tackle fuel poverty.</li> <li>b. ensuring the annual Cold Weather Plan for England continues to link to wider work on fuel poverty and provides clear guidance on how support to cold homes can be delivered locally.</li> <li>c. encouraging Health and Wellbeing Boards to ameliorate the symptoms of, fuel poverty at a local level by developing further supportive material and advice on good practice on how investment in energy efficiency can improve health outcomes and reduce costs of health and social care support.</li> <li>d. shifting the focus of NHS funding from acute services to preventative measures, including fuel poverty alleviation. (<i>10<sup>th</sup> Annual Report</i>)</li> </ol> </li> </ul>	<p>The DoH's WHHP helped to galvanise many local health actors and community Groups. However, the short-term nature of this fund and changes to other national funding sources acted against the development of longer-term interventions and partnerships, including the development of local health referral schemes and services.</p> <p>DECC's fuel poverty framework made important links to energy interventions which result in positive health outcomes. However, national policies still fail to lever the full value of these additional benefits and there is still a lack of detailed, accessible and regular data/information, provided in a standardised format on related local health and care costs for treating the symptoms of cold homes.</p>

## **Annex B – About the Fuel Poverty Advisory Group**

The Fuel Poverty Advisory Group is an advisory NDPB sponsored by DECC, with the primary task of providing advice to Government on tackling fuel poverty in England.

The Group is composed of:

- Chair: Derek Lickorish MBE
- Vice Chair: Teresa Perchard

Representatives from the following organisations:

- Age UK
- Association for the Conservation of Energy (ACE)
- Carillion
- Centrica (British Gas)
- Child Poverty Action Group
- Citizens Advice
- E.ON UK
- EDF Energy
- Energy Efficiency Partnership for Buildings (EEPB)
- Local Government Association (LGA)
- National Energy Action (NEA)
- National Grid
- RWE npower
- Scottish and Southern Energy
- ScottishPower
- UK Health Forum

### Off-gas working group members

During 2013/14 the working group on off-gas grid households has involved a significant number of individuals working with FPAG members. We would like to acknowledge their significant contribution to our work this year.

Jeremy Nesbit	FPAG – Chair of working group
Mark Askew	Federation of Petroleum Suppliers
Tom Bell	Northern Gas Networks
William Baker	Citizens Advice (also a member of FPAG)
Sarah Beattie-Smith	Citizens Advice Scotland
Siobhan Barton	Northern Power Grid
Mike Foster	EUA
Kate Garth	RWE npower
Mary Gregory	DECC
Scott Hamilton	Ofgem
Kate Hearnden	Welsh Government
Tracy Hine	National Grid
James Kerry	DECC
Anna Livesey	Sustainable Energy Association
Karen Lond	Carbon Action Network
John Mason	EDF (also a member of FPAG)
Ann McKenzie	Scottish Government
Sarah Moore	Northern Power Grid
Emma Pinchbeck	Sustainable Energy Association
Raini Scott	SGN
Rob Shuttleworth	UK LPG
Peter Smith	National Energy Action
Julian Swann	Affordable Warmth Solutions
Lisa Thomson	UK LPG
Urszula Thorper	British Gas
Rita Wadey	DECC
Nigel Winnan	Wales and West Utilities

## **Annex C – List of abbreviations**

<b>AW</b>	Affordable Warmth
<b>CCC</b>	Climate Change Committee
<b>CERO</b>	Carbon Emissions Reduction Obligation
<b>CfD</b>	Contracts for Difference
<b>CMA</b>	Competition and Markets Authority
<b>CPF</b>	Carbon Price Floor
<b>CSCO</b>	Carbon Saving Communities Obligation
<b>CSE</b>	Centre for Sustainable Energy
<b>CWP</b>	Cold Weather Payment
<b>DCLG</b>	Department for Communities and Local Government
<b>DECC</b>	Department of Energy and Climate Change
<b>DNO</b>	Distribution Network Operators
<b>DoH</b>	Department of Health
<b>DWP</b>	Department for Work and Pensions
<b>ECO</b>	Energy Companies Obligation
<b>EMR</b>	Electricity Market Reform
<b>EPC</b>	Energy Performance Certificate
<b>ESAS</b>	Energy Saving Advice Service
<b>EU</b>	European Union
<b>FPAG</b>	Fuel Poverty Advisory Group
<b>GDN</b>	Gas Distribution Networks
<b>HHCRO</b>	Home Heating Cost Reduction Obligation or Affordable Warmth
<b>HHSRS</b>	Housing and Health Safety Rating System
<b>LESA</b>	Landlords Energy Saving Allowance
<b>LCF</b>	Levy Control Framework
<b>LIHC</b>	Low Income High Cost

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<b>LPG</b>	Liquefied Petroleum Gas
<b>NHS</b>	National Health Service
<b>NICE</b>	National Institute for Health and Clinical Excellence
<b>PRS</b>	Private Rented Sector
<b>RdSAP</b>	Reduce Data Standard Assessment Protocol
<b>RHI</b>	Renewable Heat Incentive
<b>RO</b>	Renewables Obligation
<b>SAP</b>	Standard Assessment Procedure
<b>WFP</b>	Winter Fuel Payments
<b>WHD</b>	Warm Home Discount

## **Annex D – List of FPAG responses to consultation exercises**

During 2014 the FPAG has responded to the following consultation exercises:

- Ofgem State of the Market Framework
- National Grid Stakeholder Consultation
- Future of ECO Consultation
- Consultation on 2014-17 Child Poverty Strategy
- DCLG Review of Property Conditions in the Private Rented Sector
- Ofgem RIIO-ED1 business plans consultation
- Private Rented Sector Energy Efficiency Regulations consultation
- Consultation on Government Strategy and Policy Statement to Ofgem
- Consultation on the extension to the Warm Home Discount for 2015/16
- Cutting the Cost of Keeping Warm – DECC consultation on the proposed new fuel poverty strategy
- Ofgem Fuel Poverty Network Extension Scheme consultation
- Energy and Climate Change Committee call for evidence on Smart Meter roll out

