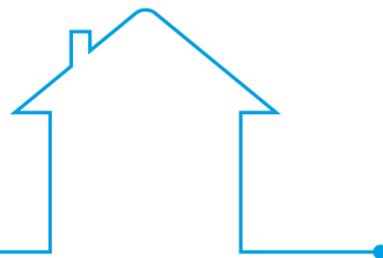




Committee on
Fuel Poverty

COMMITTEE ON FUEL POVERTY

A report on initial positions



September 2016

Committee on Fuel Poverty Terms of Reference

The Committee on Fuel Poverty is an advisory Non-Departmental Public Body sponsored by the Department of Business, Energy and Industrial Strategy. The role of the Group is to:

- monitor and report on progress towards the interim milestones and 2030 fuel poverty target;
- support and challenge the Government on its delivery approach to underpin successful implementation of the strategy, including considering and reporting on:
 - the effectiveness and efficiency of policies and schemes which contribute to meeting the milestones and 2030 target;
 - the impact of other policies and schemes on fuel poverty; as well as
 - modifications to existing policies and any additional policies and schemes needed to meet the milestones and 2030 target;
- encourage and foster a partnership approach between and within Government and stakeholders, including at local level, to make progress against the milestones and targets, including the identification of barriers to effective joint working; and
- work where appropriate with the Committee on Climate Change, which has a statutory duty to consider fuel poverty when advising on carbon budgets, to help underpin efforts to ensure that the decarbonisation and fuel poverty agendas work together.

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Executive Summary

This is the first report of the Committee on Fuel Poverty. Our role is to advise the Government on policies aimed at reducing fuel poverty in England. Currently, 2.38 million households (10.6%) are in fuel poverty and are struggling to afford to heat their homes to acceptable levels. Not only do these households have low incomes; they also live in energy inefficient housing. What this means in practice is that huge numbers may be indebted to energy suppliers and suffer from ill-health resulting from cold homes. Other outcomes from fuel poverty include excess winter mortality levels, increased demands on the National Health Service, social isolation and poor outcomes for younger people.

Our focus is on helping to ensure that the targets and milestones set in the Government's 2015 fuel poverty strategy 'Cutting the Cost of Keeping Warm' are achieved. The focus of the strategy is on improving the energy efficiency ratings of households in fuel poverty. This will sustainably reduce the heating costs and hence help sustainably alleviate fuel poverty. The target is to ensure that as many fuel poor homes as is reasonably practicable achieve a minimum energy efficiency rating of Band C, by 2030. To track progress, two interim milestones have also been set:

- as many fuel poor homes as is reasonably practicable to Band E by 2020 and
- as many fuel poor homes as is reasonably practicable to Band D by 2025

The Committee supports the three Guiding Principles that Government intend to use to help guide their actions to deliver their fuel poverty strategy. These are:

- prioritisation of the most severely fuel poor;
- supporting the fuel poor with cost-effective policies;
- reflecting vulnerability in policy decisions.

We are a new Committee, having been established in January this year. We therefore don't yet have a full set of answers, so this is a report on our initial positions which:

- sets out where we see early opportunities to make a difference and makes recommendations on these;
- gives our views on matters which are subject to current or imminent Government decisions.

Beyond this, the report discusses some of the key issues in tackling fuel poverty and outlines our early views on these.

The report also looks towards ongoing dialogue with stakeholders, and we would welcome views on this report. Going forward we want to provide advice as close as possible to the

times when it is of most value. We intend, therefore, to issue short position papers on a regular basis.

Our initial views

Actions to tackle fuel poverty can be brigaded under what we see as six priority outcomes.

1. The strategy will be sufficiently funded and existing Government and supplier programme spend will be significantly better focussed on helping households in fuel poverty.
2. There will be additional finance in place from other sources to help fund household energy saving measures to meet the fuel poverty milestones and target.
3. Health agencies, local authorities and practitioners will recognise the impacts of cold homes and will be engaged in delivering solutions.
4. Regulatory changes will have demonstrably positive outcomes for households in fuel poverty.
5. The energy market will function for households in fuel poverty.
6. Households in fuel poverty will be well-informed and advised on assistance available from different sources and actions they can take.

If we work towards these outcomes we will meet the target and milestones whilst also working with the principles set out by the Government in its fuel poverty strategy for cost effectiveness, addressing vulnerability and assisting those in the deepest fuel poverty first.

The main body of the report is structured upon these six outcomes. We have also made a number of recommendations, which are listed below and are also set out in the report under the relevant outcomes.

In reaching our initial positions, we believe that success must be built on three fundamental foundations:

- being able to identify the address, property type and energy efficiency rating of each household in fuel poverty, so that the required energy efficiency measures can be identified;
- identifying the most efficient and effective way of delivering assistance to the households in fuel poverty;
- having funding in place to:
 - upgrade the energy efficiency of households. We estimate that it will cost £1.9 billion to achieve the 2020 milestone, a further £5.6 billion to meet the 2025 milestone and an additional £12.3 billion to meet the 2030 target;
 - help households in fuel poverty to pay their fuel bills, whilst awaiting energy efficiency improvements to their homes. The average household in fuel poverty would need to spend an additional £371 per year to heat and power their home to a reasonable standard.

It is difficult to overstate the importance of being able to identify the location of each individual household in fuel poverty so that assistance can be targeted effectively to them.

This is both assistance to upgrade the energy efficiency of their household and assistance with paying their fuel bills in the interim time period.

We are very encouraged by the work that the Department for Business, Energy and Industrial Strategy has been doing – working across Government – to improve the potential for targeting. We emphasise the importance of the appropriate data sharing legislation being introduced within the currently envisaged timeframe. Without it, there is a high risk that the 2020 milestone will be missed. Even if there is no time slippage, the work to meet the 2020 Band E milestone will be very back-loaded into 2018 and 2019.

As well as needing an improved ability to identify individual households in fuel poverty, the best way of delivering household energy efficiency measures also needs to be identified. We currently think that continuing to place the obligation to improve household energy efficiency on the energy suppliers is appropriate. However, opportunities for local authorities, charities and health agencies to assist should also be provided.

On funding, the Government's Fuel Poverty Strategy document implies that annual spending that contributes to alleviating fuel poverty is around £3 billion per year across the UK. Such levels of spending would be of the order that many commentators feel is necessary on a consistent basis for reaching the 2030 fuel poverty Band C household efficiency target. We have concluded, however, that only a small percentage of this funding is currently designed to reach households in fuel poverty in England (under the Low Income, High Cost definition). Key among our recommendations, therefore, are those on improving targeting of existing schemes and ensuring sufficient funding is in place.

Whilst improved targeting and funding of existing Government schemes is essential, we also think that supplemental funding can contribute to faster achievement of the target and milestones and have made recommendations to achieve this. We want to explore further the scope for drawing in investment from private finance; we believe that the benefits of designating energy efficiency as a national infrastructure priority should be assessed, thereby potentially helping to unlock access to public infrastructure funding; and we believe private landlords should be required to ensure their properties are energy efficient to a minimum standard.

Overlaying all of the above is ensuring that those least able to pay for their energy are well-informed about choices and that the energy market does not place them at a disadvantage. Our report contains initial suggestions to improve matters in these areas and we will continue to closely monitor the marketplace.

Our recommendations in full are below. This is of course our starting point, and we look forward to working with the Government and a wide range of stakeholders in future.

Recommendations

1. We have shown that there are currently significant shortfalls in funding to meet the 2020/25 milestones and 2030 household energy efficiency target and assist households in fuel poverty to pay their energy bills. Given the proximity of the 2020 milestone and the current low level of assistance that those in fuel poverty are receiving to pay their fuel bills, Government needs to take urgent action. We therefore recommend that Government:

- (a) Identifies the types and costs of household energy efficiency measures (including administration costs) that are required to meet the 2030 fuel poverty target and the 2020/25 milestones. This should take into account such things as the expected levels of inefficiency due to a lack of addresses for some households in fuel poverty and the possible requirement to install some energy efficiency measures in households that do not meet the criteria of being in fuel poverty (e.g. if a communal heating system in a tower block needs upgrading).
- (b) Identifies the costs for assisting households in fuel poverty to pay their energy bills, whilst they await energy efficiency upgrades in their households.
- (c) Ensures that funding and programmes are in place to meet the needs in (a) and (b) above. Given the current low level of assistance with fuel bills and the need for industry to quickly set up programmes to install the energy efficiency measures required to meet the 2020 milestone, we request that Government announces their proposals in the 2016 Autumn Statement and their funding proposals in the 2017 March Budget Statement. These could include:
 - significantly improving the targeting of funds towards households in fuel poverty from the existing Government Energy Company Obligation (ECO) programme and the Government programmes included in the Fuel Poverty Delivery Scorecard, e.g. Winter Fuel Payment, Cold Weather Payment, Warm Home Discount;
 - attracting supplemental funding from other sources such as Privately Rented Sector Landlords, third parties, National Infrastructure funds (see Section 2) etc;
 - plans to ensure a smooth transition between meeting the 2020 milestone and starting work towards meeting the 2025 milestone.

2. We recommend that future ECO programmes are designed in such a way so as to deliver the fuel poverty milestones and target in the most cost effective way. This may require such changes as introducing new energy efficiency measures into ECO or adjusting the ECO scoring for different energy efficiency measures. When designing the new ECO schemes, it is important to listen to those involved in the delivery of schemes and what will drive them. Furthermore, the design of future ECO programmes should reflect that the prime objective for ECO is to deliver Fuel Poverty household SAP Band rating improvements and not carbon abatement,

achieving Government's manifesto commitment to raise the energy efficiency of over 1,000,000 households or attracting third party contributions.

3. Given that knowing the addresses of those in fuel poverty is critical for the success of the Strategy, we recommend that high priority is given by Government to ensure that appropriate Data Sharing legislation is introduced within the currently envisaged timeframe of late 2017/early 2018.

4. We recommend that households in fuel poverty should receive assistance with paying their energy bills whilst they await installation of energy efficiency measures.

5. We recommend that Government continue to prioritise assistance to the most severely fuel poor. A 'targeting efficiency metric' should therefore be added for each Government programme in the Fuel Poverty Delivery Scorecard (e.g. Winter Fuel Payment, Warm Home Discount, Cold Weather Payment, ECO) which can be used to track the progress of improving programme targeting efficiency on those in fuel poverty.

6. We recommend that the Government implements regulations requiring private landlords to upgrade their properties up to Band E up to a cap of £5k spend per property supplemented by ECO where additional measures are needed.

7. We recommend that the Landlord's Energy Savings Allowance – a former tax allowance on energy saving expenditure by landlords – is re-introduced.

8. We recommend that the current Housing Health and Safety Rating System guideline scores for the health and safety impact of cold homes on children and pensioners are reviewed (and updated if necessary) in light of the latest studies on health effects from cold homes.

9. We believe there is a strong case for strengthening enforcement action where regulations exist to protect households potentially at risk from cold homes and we would welcome discussion with stakeholders on the possibilities and an appropriate funding mechanism for enforcement action.

10. We recommend that Ofgem report to BEIS on the impacts and contribution the Competition and Markets Authority remedies will have on fuel poverty.

11. We recommend that tackling fuel poverty, including improving and replacing the inefficient housing stock, should be part of the devolution agenda. We also recommend that local authorities should be empowered to support and champion community-based energy efficiency initiatives and local health commissioners to act on the link between cold homes and ill health to commission appropriate interventions.

12. Given the plans to run a further energy supplier switching campaign this year, this appears to present a clear early opportunity and we recommend that BEIS ensures a proper and effective focus on fuel poor households. We would question the value of spending further public money on one which did not have such a focus.
13. We support reducing the participation threshold for Warm Home Discount to 50,000 customer accounts as soon as is practicable. In addition, where switching sites are concerned they should always disclose before switching a customer to a small supplier if that supplier does not offer a Warm Home Discount rebate.
14. We recommend that park home residents are entitled to benefit from Warm Home Discount energy rebates like other households.
15. We recommend that the Government recognises the importance and different facets of energy advice and ensure adequate resources are in place for high quality services, offered in a bespoke way that results in meaningful outcomes for fuel poor households.

Part one

Introduction

1.1 This is the first report of the Committee on Fuel Poverty (CFP). We were formed in January this year, following a triennial review of the former Fuel Poverty Advisory Group (FPAG – see Box 1). Our role is principally the same as was FPAG’s: in short, to advise the Government on policies aimed at reducing fuel poverty in England. In doing so, our focus is on the Government’s fuel poverty strategy plus its fuel poverty target and milestones.

Box 1

Triennial Review of the Fuel Poverty Advisory Group

As an advisory “non-Departmental Public Body (NDPB)”, the former FPAG was subject to a “triennial review”, which began with a consultation in 2012, concluding with a report in 2014¹. The purpose was to establish whether there was a continuing need for FPAG and review its control and governance arrangements. The report concluded that FPAG performed an important function and should continue as an advisory NDPB.

The report also recommended ways in which FPAG could improve the way it operated, to enhance its ability to provide independent expert advice. A key recommendation was that it should be reformed with fully independent members, instead of the *ex officio* membership of the previous group, and that members should be recruited and appointed by Ministers in accordance with the Code of Practice for Public Appointments. The report also suggested reconsidering the name of FPAG. The former Department of Energy & Climate Change (DECC) implemented the reform during 2015, leading to the launch of the CFP in January 2016.

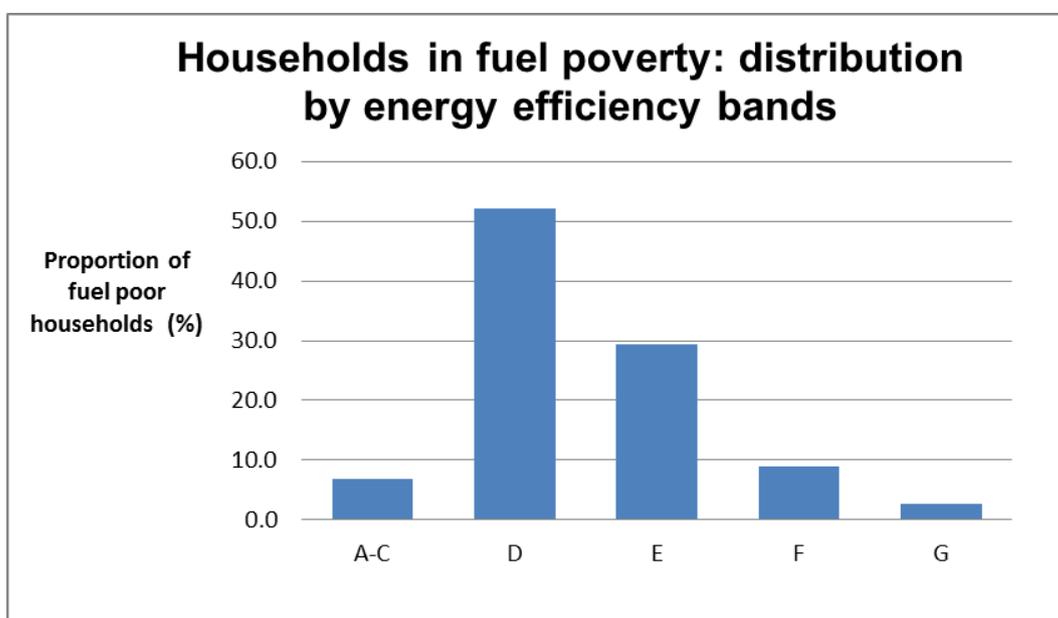
¹ First triennial review report: Fuel Poverty Advisory Group for England, Department of Energy & Climate Change (DECC), July 2014: <https://www.gov.uk/government/publications/first-triennial-review-report-fuel-poverty-advisory-group-for-england>

This report

1.2 The Government published its strategy for tackling fuel poverty in 2015² (see Appendix 1 for more background on the Government's strategy). In developing our recommendations for delivering fuel poverty, we are working with the guiding principles set out in the strategy of:

- prioritising the most severely fuel poor;
- adopting a cost-effective approach; and
- reflecting vulnerability in policy decisions.

1.3 The Government's strategy focusses on the fuel poverty target: to ensure that as many fuel poor households as is reasonably practicable achieve a minimum energy efficiency rating of Band C by 2030, and the interim milestones: to ensure that as many fuel poor households as is reasonably practicable are in Band E by 2020 and Band D by 2025. The focus, therefore, is on energy efficiency bands, and moving households in fuel poverty up through the bands. The following graph shows the distribution across energy efficiency bands.



² Cutting the cost of keeping warm – A fuel poverty strategy for England, DECC, March 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408644/cutting_the_cost_of_keeping_warm.pdf

1.4 Tackling fuel poverty is complex. The change to using a Low Income-High Cost (LIHC) definition for fuel poverty in the new 2015 strategy, follows the report on the Fuel Poverty Review by Professor John Hills in 2012³, means that many of the existing household energy efficiency programmes and policies that assist with energy costs need to be fundamentally redesigned and/or re-aligned to substantially reduce the amount of energy that these households need to use. (See Appendix 2 for background and discussion on the LIHC indicator.) This means improving the energy efficiency of millions of properties across the country.

1.5 Installing household energy efficiency measures will inevitably take some years and so assisting households in fuel poverty to pay their energy bills is also important in the interim. Government is already in the process of redesigning some of the existing programmes on energy efficiency and assistance with energy bills and many of the decisions will affect the longer-term.

1.6 The first milestone in 2020 is not far away and the CFP is of the opinion that significant additional action is needed to reach it:

- the ability to identify each individual household in fuel poverty needs to be developed;
- resources need to be provided to survey the identified at risk households, check if the data used in identification (income, SAP rating⁴) is correct and make a decision on what energy efficiency measures are needed;
- matters such as how to upgrade the energy efficiency of a tower block, where only a percentage of inhabitants may not be in fuel poverty must be addressed;
- funding required to meet the 2020 target needs to be put in place and we call on the Government to ensure that funding sources are set out in the Autumn Statement which will accurately target and improve the energy efficiency of households with the lowest energy efficiency ratings;
- funds should be put in place to assist all households in fuel poverty to pay their energy bills, whilst they await their homes being upgraded over the period until 2030.

³ Getting the measure of fuel poverty – Final report of the fuel poverty review, Prof. John Hills, for DECC, March 2012: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48297/4662-getting-measure-fuel-pov-final-hills-rpt.pdf

⁴ SAP – Standard Assessment Procedure - assesses how much energy a property will consume when delivering a defined level of comfort and service provision.

1.7 We do recognise, however, that 100% achievement of upgrading Band F/G households to Band E is almost impossible to achieve. For example, there will always be some households that refuse energy efficiency measures, even if offered at no cost.

1.8 Given that the CFP is newly formed, we don't yet have a full set of answers. Instead, the report:

- sets out where we see early opportunities to make a difference and makes recommendations on these;
- gives our views on matters which are subject to current or imminent Government decisions.

1.9 Beyond this, the report discusses some of the key issues in tackling fuel poverty and outlines our early views on these.

1.10 The report also looks towards ongoing dialogue with stakeholders. Our Terms of Reference require us to “encourage and foster a partnership approach between and within Government and stakeholders”. The benefits of working with others have been very clear to us during our work since we were fully established in January this year, and we want to continue working in this way. We have had helpful input from a wide range of stakeholders. Those we have met include the Committee on Climate Change, the End Fuel Poverty Coalition, Energy UK, the Association for the Conservation of Energy, the Association of Local Energy Officers and numerous others. We also plan to assist Government to coordinate action across a number of departments to holistically tackle fuel poverty, including housing and health. We would welcome views on this report, and we want to maintain engagement with stakeholders through the year.

1.11 Going forward, we want to provide advice as close as possible to the times when it will be of most value. We intend, therefore, to issue short position papers on a regular basis. This will enable us to provide input and advice more flexibly. Our annual reports are then likely to draw together the advice provided throughout the year with additional commentary, updates and overviews.

The challenge

1.12 The symptoms of fuel poverty are often reported levels of indebtedness to the energy suppliers, excess winter mortality levels and morbidity related to cold homes and the use of prepayment meters. Professor John Hills said in his report ‘Getting the measure

of fuel poverty'⁵ that 'from a health and well-being perspective: living at low temperatures as a result of fuel poverty is likely to be a significant contributor not just to the excess winter deaths that occur each year (a total of 27,000 each year over the last decade in England and Wales), but to a much larger number of incidents of ill-health and demands on the National Health Service and a wider range of problems of social isolation and poor outcomes for young people'.

1.13 We want to better understand the relationship between these statistics and the fuel poverty strategy and the wider benefits of the fuel poverty strategy, in both monetary terms to the public spending and improved wellbeing.

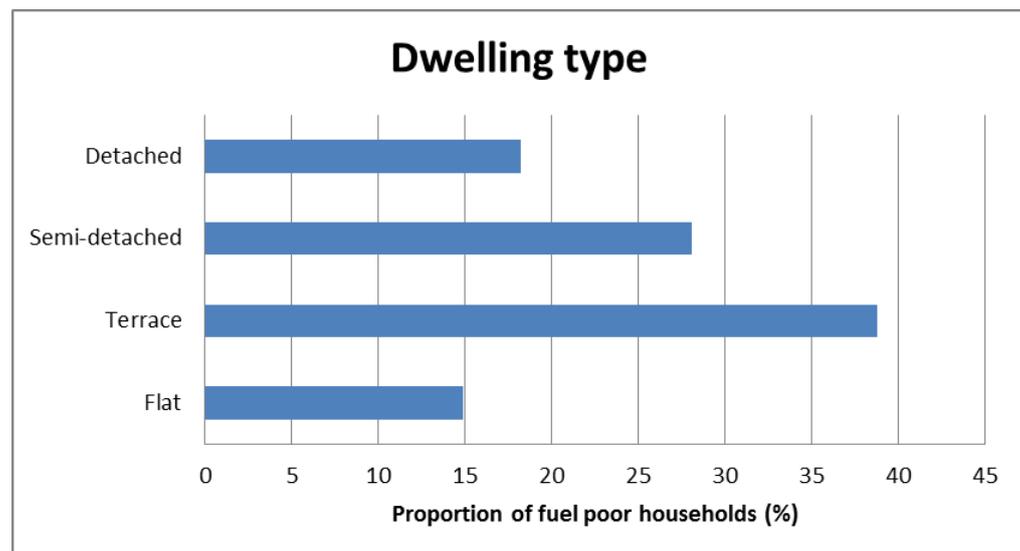
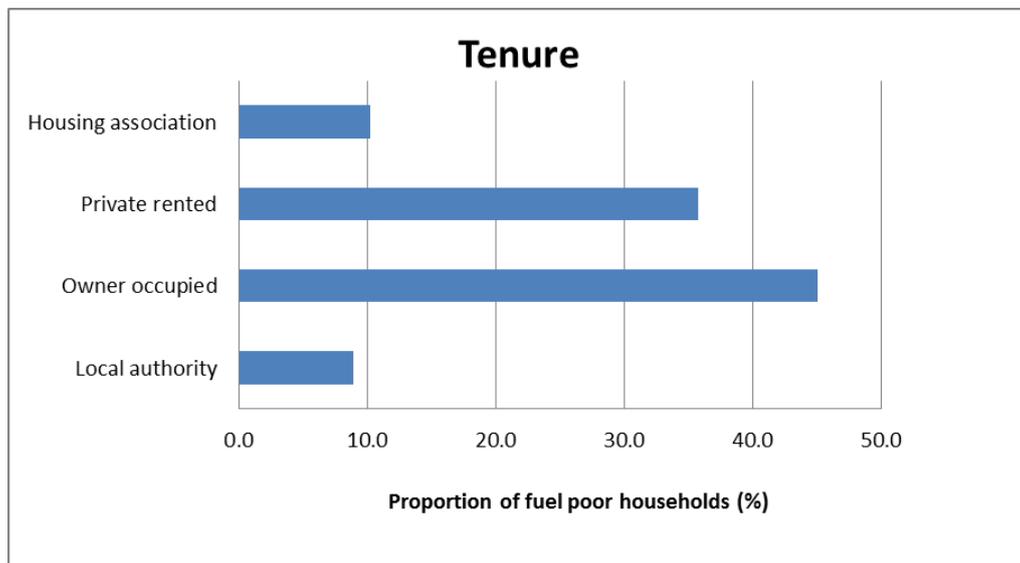
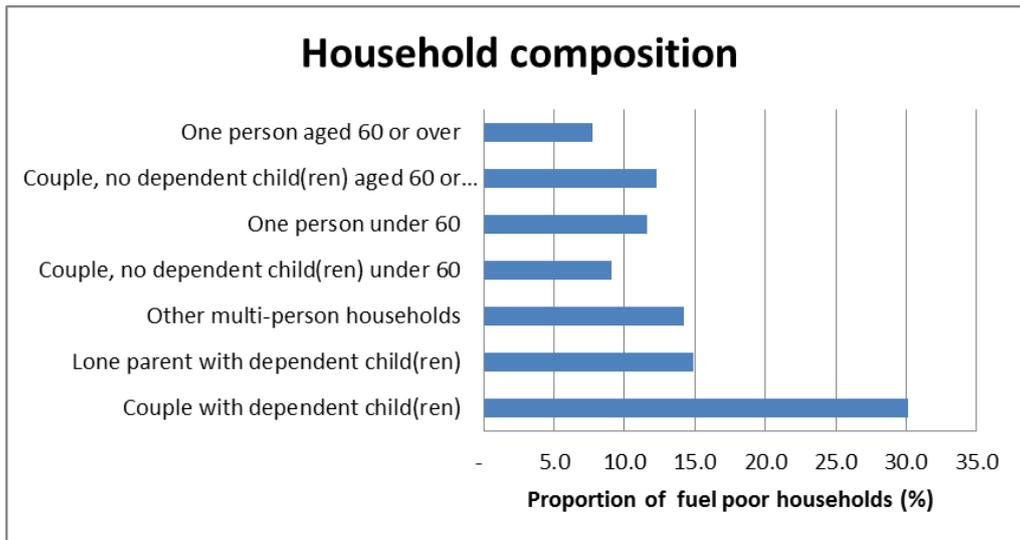
1.14 The latest fuel poverty statistics, released in June⁶, show that 2.38 million households in England were in fuel poverty in 2014, which is 10.6% of all households. They show an average annual fuel poverty gap of £371 (the average additional amount that households in fuel poverty need to spend to meet their energy needs, versus the national median amount) and an aggregate fuel poverty gap of £882 million. Average figures can of course mask all sorts of variations, and those in deepest fuel poverty face gaps of more than £1,500. We agree with the Government that we should put greater effort into assisting those households first. It should be noted that the annual fuel bill savings for upgrading the energy efficiency Band ratings are not linear. Therefore, upgrading a Band G household to Band F generates higher annual savings than upgrading a Band F household to Band E, etc.

1.15 The following graphs illustrate the composition of the population of households in fuel poverty⁷.

⁵ Getting the measure of fuel poverty – Final report of the fuel poverty review, Prof. John Hills (see footnote 3), p.7.

⁶ Annual fuel poverty statistics report 2016, DECC/National Statistics, June 2016:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/540034/Annual_Fuel_Poverty_Statistics_Report_2016_-_revised.pdf

⁷ Fuel Poverty detailed tables: 2014, National Statistics, June 2016:
<https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2014>



Risks of unintended consequences

1.16 We have been mindful in our work of the risks of unintended consequences resulting from any of our recommendations. For instance, in directing resources towards upgrading the energy efficiency of low income-high cost households, is there a risk that low-income-low cost households will fall into the former category? Similarly, in Part Two, Section one we discuss potential changes to programmes such as Winter Fuel Payments (WFP). If some funds were to be re-directed away from pensioner households who are in the high income-high cost category, what is the risk of significant numbers falling into the low income-high cost category? We intend to undertake further assessment of such risks, but our initial assessment is that the risk of negative impacts on fuel poverty associated with our preliminary recommendations is low.

Key indicators

1.17 Our view is that there are three key, headline fuel poverty indicators, that need to be viewed together, and this has important implications for assessing and explaining progress of the strategy. The indicators are:

- the depth of fuel poverty, as measured by the fuel poverty gap – which indicates how much more these households need to spend than the median household for the type of property;
- the improvement in the energy efficiency bands in which fuel poor households live;
- the number of households living in fuel poverty.

1.18 We recognise that the strategy needs to make progress on all three indicators and we shall be monitoring and advising on how the policies will drive action to make a positive impact on all three.

1.19 Based on a study for the Committee on Climate Change completed in 2014⁸, the estimated costs for meeting the targets and milestones are £1.7bn to reach the 2020 milestones, a further £5.1bn to reach the 2025 milestones, and then a further £11.2bn to reach the 2030 target. The total estimated is therefore £18bn. In addition to these costs are administration and delivery costs, which will add a further significant amount to the funds needed.

⁸ Meeting the proposed fuel poverty targets – Modelling the implications of the proposed fuel poverty targets using the National Household Model, Centre for Sustainable Energy (CSE) for the Committee on Climate Change, November 2014, p.2: https://www.theccc.org.uk/wp-content/uploads/2014/11/CCC_ModellingProposedFuelPovertyTargets_FinalReport_Nov2014.pdf

1.20 We feel that it is vital for Government to have a clear understanding of where current policies will lead to in terms of reaching the milestones and targets. This includes understanding what levels of expenditure are necessary, and the extent to which current and proposed activities are directed towards the task.

1.21 We are encouraged that the Prime Minister, in her first statement upon appointment on 13th July, appointment, focussed on inequalities, social injustices and insecurity. Tackling the challenge of fuel poverty must, we feel, be a vital part of this agenda.

Six priority outcomes

1.22 Our initial view is that actions to tackle fuel poverty can be brigaded under what we see as six **priority outcomes**. Part 2 of the report is structured around these

Section one

The strategy will be sufficiently funded and existing Government and supplier programme spend will be significantly better focussed on helping households in fuel poverty.

Section two

There will be additional finance in place from other sources to help fund household energy saving measures to meet the fuel poverty milestones and target.

Section three

Health agencies, local authorities and practitioners will recognise the impacts of cold homes and will be engaged in delivering solutions.

Section four

Regulatory changes will have demonstrably positive outcomes for households in fuel poverty.

Section five

The energy market will function for households in fuel poverty.

Section six

Households in fuel poverty will be well-informed and advised on assistance available from different sources and actions they can take.

1.23 If we work towards these outcomes we will meet the target and milestones whilst also working with the principles set out by the Government for cost effectiveness, addressing vulnerability and assisting those in the deepest fuel poverty first.

Box 2

Our approach to vulnerability

Our view is that 'vulnerability' is not an attribute of an individual, but rather a circumstance, or conjunction of circumstances, that combine with an individual's characteristics to render them vulnerable. This makes it difficult to point to a group of people and say 'they are vulnerable' in order to choose a particular course of action to benefit that group.

We have identified three risk factors that contribute to vulnerability:

1. someone's personal circumstances (e.g. health status creating a high demand for fuel and/or low availability of funds temporarily or longer-term);
2. things that are largely within suppliers' control and make it hard for someone to manage their fuel consumption and costs effectively (e.g. complex call routing systems or inaccurate, confusing billing);
3. things that are largely outside suppliers' control but still make it hard for someone to manage their fuel consumption and costs effectively (e.g. digital or financial exclusion).

The first of these always renders someone potentially vulnerable, but when it combines with 2 or 3 the risk becomes significantly greater. When all three combine, the person in question will definitely be rendered vulnerable.

Our approach differs from most other agencies and from government departments, as they use a definition that embraces specific groups such as older people or disabled people. We believe this carries the risk of excluding many who are vulnerable in specific ways or at specific times, through the death of a partner for instance, and of including many who are not particularly vulnerable in relation to fuel poverty, such as wealthy pensioners and those disabled people for whom heating is not an extra cost.

We recognise that using proxies is, in the absence of better targeting, a more practical way for suppliers to try to identify individual households that are vulnerable and in fuel poverty. At the same time, however, the other factors that create vulnerability need to be addressed by suppliers, regulators and policy makers in order to address vulnerability in the longer term.

We will apply our approach to vulnerability across our work, assessing the impact of what we propose on those who might be vulnerable.

Part two - priority outcomes

Section one

The strategy will be sufficiently funded and existing Government and supplier programme spend will be significantly better focussed on helping households in fuel poverty

2.1 We have spent a significant amount of our time so far seeking to understand whether there will be sufficient funding in place to ensure that the strategy is delivered, and the milestones and target reached. The two main elements in this have been establishing what funding is needed, and then assessing what funding is already, or will be, in place within the timescales.

What funding is needed?

2.2 There have been several investigations of how much funding is necessary to achieve the fuel poverty milestones and target, but we have focussed primarily on a report for the Committee on Climate Change in November 2014⁹. This included modelling the costs of achieving the milestones and targets at lowest cost and included a dynamic environment where energy costs and incomes changed over time.

2.3 The table below uses data from the Committee on Climate Change report for their “lowest cost” scenario¹⁰ for reaching the milestones and targets, however, we have added 10% administration costs to their total costs. This suggests a total investment nearing £20 billion is needed through the period to reach the target in 2030.

Table 1

	2020 Band F/G Milestone	2025 Band D Milestone	2030 Band C target
Investment Cost £ millions	1,837	5,610	12,364

⁹ Meeting the proposed fuel poverty targets, CSE (footnote 8)

¹⁰ Meeting the proposed fuel poverty targets, CSE, p.10 (footnote 8)

2.4 The administration costs assume that schemes can be easily and well targeted and actual costs will depend on a number of factors, including data sharing legislation being in place by 2017 and effective engagement techniques:

- Some have argued that the administration costs of targeting households in fuel poverty will be increased by an increasing need to tackle properties which are more dispersed across the country and often in rural locations. We agree that this will be an upwards pressure on costs. Better use of Government data to help identify each household in fuel poverty could, however, provide a downward pressure on costs.
- There could also be a downward pressure on costs as a result of improving and new technologies through the period, although it would be safe to assume that any such impacts are more likely to be later, rather than earlier, in the period.
- Additionally, some industry bodies are highlighting that the cost of delivering certain measures will be lower than set out in the consultation document on ECO 2017-18¹¹ and we support a closer look at the costs to ensure as many households as possible are assisted through the agreed ECO cost envelope.
- We also note that the Committee on Climate Change report assumes perfect targeting of installing energy efficiency measures to households in fuel poverty (i.e. households who are not in fuel poverty do receive assistance by mistake). Given that current targeting efficiency is low, this implies that actual costs could be higher. Better use of Government data should, again, help to mitigate this. Proposed changes to ECO for 2017/18 seek to improve eligibility for assistance up to 60%, however, given the current lack of accurate data to identify households in fuel poverty, we estimate that only about 20% of the current England ECO spend is expected to actually be spent on households in fuel poverty (this is taking account of the proportion of funds that are allocated under all three ECO obligations¹²). Furthermore, accurately focusing this 20% of spend on Band F/G households in fuel poverty will not be possible. ECO for 2017/18 onwards should be able to significantly better target spend on Band F/G households in fuel poverty, providing appropriate Data Sharing legislation is in place (currently forecast late 2017 or early 2018).

2.5 The Committee on Climate Change report also notes that “the average cost per dwelling increases with the targets (from around £3,400 to achieve the 2020 target to £5,800 per dwelling to meet the 2030 target), as does the number of dwellings requiring

¹¹ ECO: Help to Heat, consultation, DECC, June 2016:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/531964/ECO_Help_to_Heat_Consultation_Document_for_publication.pdf

¹² The three separate ECO obligations are: Affordable Warmth, Carbon Emissions Reduction Obligation and Carbon Saving Community Obligation.

over £10,000 of investment. This reflects the mix of measures needed to ensure that the increasingly higher standards of energy efficiency are met". This means the task becomes more expensive stretching through each of the three periods.

2.6 The report calculated that the number of households in fuel poverty and the fuel bill gap do not fall as fast as could be expected, This slow fall in the number of households in fuel poverty between 2015 and 2020 is mainly caused by the fact that even after upgrading a Band F or G household to Band E, the household is still relatively energy inefficient. Households in fuel poverty numbers fall faster during 2020 to 2030 as more are upgraded to Band D or C. The slower than expected fall in the Fuel Poverty Gap is mainly due to the modelling using dynamic assumptions for income and rising fuel prices over the time period. However the report is rigorous and is a good indication of how the metrics may progress.

2.7 There has been other work to investigate the costs of making the nation's housing stock more energy-efficient and tackling fuel poverty. Estimates differ but they are rarely of substantially different orders. Costs of measures may change over time as technologies and their application develop, especially for the more significant energy efficiency measures required to meet Band C in the 2025/30 time period. But at present, there appears to be a high degree of consensus regarding the scale of the task.

2.8 The cost of reaching the milestones and target depends on the mix of measures necessary, and undertaken in practice. We have also discussed with the Department for Business, Energy and Industrial Strategy (BEIS) what mix of measures might be necessary, and this is also of course highly relevant to the design of future supplier obligations. We will continue to explore this, but – noting that the Committee on Climate Change work sought to model using the most cost-effective solutions - at present we have no evidence to suggest there is a mix of measures that would result in lower total costs, albeit as technology progresses, costs should come down. It may be that more complex measures are needed in increasing numbers to move households further up the Bands.

2.9 We recommend that future ECO programmes are designed in such a way so as to deliver the fuel poverty milestones and target in the most cost effective way. This may require such changes as introducing new energy efficiency measures into ECO or adjusting the ECO scoring for different energy efficiency measures. When designing the new ECO schemes, it is important to listen to those involved in the delivery of schemes and what will drive them. Furthermore, the design of future ECO programmes should reflect that the prime objective for ECO is to deliver Fuel Poverty household SAP Band rating improvements and not carbon abatement, achieving Government's manifesto commitment to raise the energy efficiency of over 1,000,000 households or attracting third party contributions.

What funding is currently in place to deliver the 2020/25 milestones and 2030 target?

2.10 As shown above in Table 1, the best estimate we have of the required funding needed to meet the 2020/25 milestones and the 2030 target on household efficiency is as follows:

	2020 Band F/G Milestone	2025 Band D Milestone	2030 Band C target
Investment Cost £ millions	1,837	5,610	12,364

2.11 Based on our evaluations, our **conclusion is that unless significantly better targeting of existing Government programmes is put in place and additional funds are attracted from other sources, there will not be sufficient funding to meet the fuel poverty milestones and target.**

2.12 Currently, the only Government programme that assists households to upgrade their energy efficiency levels is ECO. We note that, consistent with the Fuel Poverty Strategy Guiding Principle of ‘prioritising the most severely fuel poor’, the Government has indicated an intention to better target ECO. We strongly support this. **However, as ECO is the only programme currently designed to fund energy efficiency measures, all of the planned ECO spend will be required to contribute towards meeting the 2020 milestone and we therefore recommend that ECO spending on fuel poverty should be given precedent to meet the legislative fuel poverty target over spending through ECO to meet the Government’s manifesto target to improve the energy efficiency of over 1,000,000 households over the life of this Parliament or meeting carbon budgets.**

2.13 ECO funds are not currently well targeted towards helping households in fuel poverty. Even once it can be better targeted towards households in fuel poverty, there is then the additional challenge of focusing this ECO spend on achieving the milestones (e.g. on Band F/G households between 2015 and 2020). Even allowing for improving the focus of ECO on households in fuel poverty, our estimate is that for the period 2015 to 2020, of the £2.9 billion ECO funds for England, only between £550 to £750 million will actually be spent on upgrading Band F/G households in fuel poverty to Band E (see Table 2, page 28 for explanation of our estimates) Similarly, for the 2020 to 2025 Band D milestone, there is currently only a commitment to provide ECO funds in 2020/21 and 2021/22. Even with highly accurate targeting, this would only provide about £700 million of funds in these two years for upgrading Band E properties to Band D. In addition to this, in the 2015 to 2020 timeframe, around £200 million of ECO funding would have already been spent upgrading households to Band D prior to 2020 (we recognise, however, that this will contribute to meeting the later milestone and target). **Clearly, there are large funding gaps of over £1**

billion for the 2020 Band E milestone and close to £5 billion to meet the 2025 Band D milestone.

2.14 In addition to requiring more funds for upgrading energy efficiency, **we recommend that households in fuel poverty should receive assistance with paying their energy bills whilst they await installation of energy efficiency measures.** The current fuel poverty gap is £882 million per year.

Funding from existing Government programmes

2.15 We believe that the required additional funds to tackle fuel poverty can be partly sourced via better targeting of existing Government programmes (see below) and from other sources (Sections 2 and 3 of this report discuss some of these other sources). As existing Government programmes are progressively better targeted toward those in fuel poverty, we recommend that monies are directed to (1) ensure that household efficiency rating Bands can be upgraded and (2) assist those in fuel poverty to pay their energy bills whilst awaiting efficiency upgrades. This will have the maximum impact on reducing fuel poverty. For example, this may mean that some monies from current programmes that are increasing the income of the beneficiaries (e.g. WFP), may need to be used instead for these two purposes. It is also important to note what Impact Assessments say for each scheme about net impacts on the fuel poor (for instance, we need to take into account the regressive impacts of ECO and other policy costs being bill-payer funded, meaning that the fuel poor contribute towards the costs of measures at non-fuel poor households). The effect is generally more acute for those in off-gas grid properties, as they contribute to the costs but are less likely to receive the benefits.

2.16 There are numerous schemes and programmes which may be regarded as having tackling fuel poverty as an objective. These programmes are designed either to provide discounts on energy bills, provide additional income or fund household energy efficiency measures. For instance, we note that the Government includes spend on ECO, WFP, Warm Home Discount (WHD) and Cold Weather Payment (CWP) on the Delivery Scorecard within the Fuel Poverty Strategy document, “Cutting the Cost of Keeping Warm”. The implication is, therefore, that annual spend on alleviating fuel poverty includes the total of over £3bn spent on these each year in the UK. Taking an 85% share of this spend for England (£2.55bn per year), this suggests a total annual England spend around the kinds of levels that many commentators feel is necessary on a consistent basis for reaching the 2030 fuel poverty Band C household efficiency target. We note, however, that in practice ECO, WFP and CWP also address other policy objectives, and based on our initial analysis we estimate that only around 10% of these funds reach English households (under the LIHC definition). Some of this low targeting efficiency has been caused by the change in the way fuel poverty is now measured in England (LIHC). Some of the inefficiency has also been caused by trends over the years in how, for example, the income of certain groups (e.g. pensioners) has developed versus others (e.g. working families). However, most of the misalignment has been in place for years and is caused by

the broad categories used to identify recipients (e.g. pensioners, those receiving certain benefits, etc.).

2.17 It is notable that the Department of Work and Pensions has described WFP as having been introduced with the aim of “tackling fuel poverty amongst pensioners”¹³. It is also notable that the Scottish Government, which describes WFP and CFP as “nominally fuel poverty-related benefits”, is consulting on how WFP and CWP could be used to tackle fuel poverty more effectively¹⁴. We also note that the Government has made a Manifesto commitment to maintain the universality of WFP over the life of this Parliament.

2.18 Consistent with re-targeting ECO and WHD, our clear view is that WFP needs to be better targeted to reach households in fuel poverty. We do, however, recognise the impacts of existing commitments to WFP – and indeed the role it plays in meeting other policy objectives. Its current limitations in addressing fuel poverty should however be acknowledged.

2.19 CWP reaches far more households in fuel poverty, but it is of course not always payable and is currently £25 per week per eligible household for the weeks when the payments are triggered¹⁵. Total annual payments have ranged between £8.4 million and £142 million since 2011/12¹⁶ and amounts have varied across regions (depending on weather conditions). There is also a case for amending CWP, and CFP will give further consideration to this.

2.20 In summary, it is important to have a clear view of how much funding under the relevant schemes is actually directed to households in fuel poverty as defined by the Low Income-High Cost indicator. **We recommend that Government continue to prioritise assistance to the most severely fuel poor. A ‘targeting efficiency metric’ should therefore be added for each Government programme in the Fuel Poverty Delivery Scorecard (e.g. WFP, WHD, CWP, ECO) which can be used to track the progress of improving programme targeting efficiency on those in fuel poverty.**

¹³ Winter Fuel Payment, Great Britain Official Statistics at winter 2014/15, Department for Work & Pensions, p.2: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/462178/winter-fuel-payment-official-statistics-winter-2014-to-2015.pdf

¹⁴ A new future for social security – consultation on social security in Scotland, The Scottish Government, July 2016, p.60: https://consult.scotland.gov.uk/social-security/social-security-in-scotland/supporting_documents/Consultation%20on%20social%20security%20in%20Scotland%20%20full%20version.pdf

¹⁵ Payments of £25 are made to those eligible where, between 1 November and 31 March each year, the temperature in any given weather station area (of which there are 93 across Great Britain) is recorded as, or forecast to be, zero degrees Celsius or below over seven consecutive days.

¹⁶ Social Fund Cold Weather Payment Statistics for Great Britain, 2015-16, Background and Methodology, Department for Works and Pensions, November 2015, p6: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/498293/cold-weather-payment-statistics-background-methodology.pdf

The importance of improving programme eligibility criteria and targeting to meet the milestones and target in a cost efficient manner

2.21 There are two main factors in being able to reach households in fuel poverty. The first is establishing the best possible eligibility criteria; the second is then being able to target as effectively as possible within these criteria. For ECO and WHD, the Government has been seeking to re-work the eligibility criteria so that there can be better targeting towards low income and fuel poor households. The CFP support this.

2.22 It is difficult to overstate the importance of being able to identify individual households in fuel poverty, as well as the eligibility criteria for programmes, so that assistance can be targeted effectively to them. This is both assistance to upgrade the energy efficiency of their household and assistance with paying their fuel bills in the interim time period. One of the reasons why such a relatively small percentage of funding under existing programmes such as ECO, WFP and WHD reaches households in fuel poverty is that the data has not been available to identify the individual households in fuel poverty. It should be noted that the high level numbers on fuel poverty (number of households, fuel poverty gap, etc.) are statistically generated through modelling and are not determined by adding up individual households. Programmes such as WHD were originally designed to help deliver assistance to fuel poor households, and for WHD under the old 10% definition of fuel poverty there was a high match with the core group of qualifying pensioners on means tested benefits. However, under the LIHC measure of fuel poverty, pensioners make up a much smaller percentage of fuel poor households (using a proxy of households with residents aged 60 or over, a maximum of 20% of households fall into this category). This is in part due to relative improved pensioner income compared to other households on low incomes, the energy efficiency improvements made to their properties under previous energy efficiency schemes and the increase in pension age from 60 to 63 (and increasing to 67).

2.23 It is also worth noting that improved targeting reduces the costs of identifying eligible properties, freeing up more of the budget to spend on actual measures. We are very encouraged by the work that BEIS has been doing – working across Government – to improve the potential for targeting. The recent consultation on Better Use of Data¹⁷ proposed allowing Government to share certain data with energy suppliers so that ECO and WHD targeting can be improved. It is important to note that even if additional funding is immediately put in place to upgrade Band F/G households to Band E, very little progress may be made until the Government Data Sharing legislation is enacted. This is currently scheduled for late 2017/early 2018 and it is imperative that timing does not slip due to the formation of the new Government.

¹⁷ Better use of data consultation, Cabinet Office, February 2016, p.13:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/503905/29-02-16_Data_Legislation_Proposals_-_Con_Doc_-_final_3_.pdf

2.24 Given that knowing the addresses of those in fuel poverty is critical for the success of the Strategy, we recommend that high priority is given by Government to ensure that appropriate Data Sharing legislation is introduced within the currently envisaged timeframe of late 2017/early 2018.

2.25 Even if there is no time slippage, the work to meet the 2020 Band E milestone will be very back-loaded into 2018 and 2019. Having a clear picture of likely fuel poverty status including depth of the gap is complex – because of the energy efficiency standard of the property, level of income and other factors will come from a range of sources. It should be noted that even with a 100% eligibility match, it will not be possible to design implementation programmes that work with a perfect match to the eligibility. For example, if we have 90% households in a tower block who are in fuel poverty and 10% who are not – decisions need to be taken on matters such as ‘Should assistance be given to the 10% with solid wall cladding/replacement of the communal heating system? Pragmatism and cost effectiveness of delivery will therefore be needed, especially where communal solutions are needed in a street/community/ building. We also recognise there will always be a degree of ‘trade-off’ between efficiency of targeting and cost-effective delivery. We also accept that ECO monies spent on households outside of those in fuel poverty, also benefits their occupants – especially if a Low Income Low Cost household receives energy efficiency measures.

2.26 We fully support the Government’s efforts to improve eligibility criteria and targeting and we will be working with BEIS on the formal consultation document for ECO 3 which will run from 2018-22 and which is due in the autumn.

Box 3

Better use of data to improve targeting and efficiency

Under the WHD, existing legislation enables the efficient delivery of the rebate to over a million eligible pensioners. Without such a system, delivery depends on going through other, less efficient processes to identify eligible households, including individuals having to step forward themselves and apply for the rebate, or delivery agents having to identify eligible households and provide evidence of eligibility.

In its consultation this year on the better use of data¹⁸, the Government proposed to introduce measures to allow a wider range of citizens to benefit from automatic energy bill rebates for the first time. In particular, this would include low-income citizens of working age and families with children. It will enable better targeting of support on LIHC

¹⁸ Better use of data consultation, Cabinet Office (see footnote 17)

households, not only for WHD but also under future supplier obligations.

Other possibilities to improve targeting

2.27 We note that even if full use of Government data is made, it will still only be able to identify specific household addresses for around 60% of households in fuel poverty and then allow automatic access to schemes and rebates (the exact amount is uncertain, as it is based on provisional estimates). We will work with Government, local authorities and charities to understand how the remaining households and households containing vulnerable people can be identified by using other means.

2.28 Several stakeholders have discussed with us the opportunities to improve targeting “on the ground”. It is typically envisaged that local authorities and other local partners may have the knowledge, data and means to identify households in fuel poverty. They may also be well-placed to identify some of the hardest-to-reach properties. Such views are often part of discussions about the scope for, and potential benefits of, local delivery, as opposed to leaving delivery responsibility for programmes such as ECO with suppliers.

2.29 There are several possibilities in this area. One is set out in the current ECO consultation¹⁹, which proposes that a percentage of the Affordable Warmth obligation should be delivered to households whose eligibility is determined by local authorities. This “flexible eligibility” would be introduced gradually, with potential to increase for future obligations.

2.30 We believe that there are other possible models. One would be to allow various organisations to “bid in” to deliver ECO. Local authorities would not be obligated to deliver ECO, but if interested they could bid, either on their own or in conjunction with other parties and local partners to provide ECO measures, and become accountable for delivery. The Committee recognises the various roles that local community groups, local authorities and trusted third parties can play and there are examples and case studies which are available on NEA website – with links to other sites where materials are available to help identify people in fuel poverty and how to set up local services. We recognise that there would be costs for local authorities in getting involved and that few will have readily available resources. We would see future ECO structures ideally as encouraging and enabling local authority involvement, but with the obligation maintained on suppliers.

¹⁹ ECO: Help to Heat, consultation, DECC, June 2016, (see footnote 11) p18:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/531964/ECO_Help_to_Heat_Consultation_Document_for_publication.pdf

2.31 Indeed the above model could be further developed where the whole of the ECO obligation could be auctioned to any qualified party thereby enabling the provider with the lowest cost of delivery to provide the service and the costs to be smeared across eligible suppliers.

Conclusion

2.32 We have shown that there are currently significant shortfalls in funding to meet the 2020/25 milestones and 2030 household energy efficiency target and assist households in fuel poverty to pay their energy bills. Given the proximity of the 2020 milestone and the current low level of assistance that those in fuel poverty are receiving to pay their fuel bills, Government needs to take urgent action. **We therefore recommend that Government:**

- (a) Identifies the types and costs of household energy efficiency measures (including administration costs) that are required to meet the 2030 fuel poverty target and the 2020/25 milestones. This should take into account such things as the expected levels of inefficiency due to a lack of addresses for some households in fuel poverty and the possible requirement to install some energy efficiency measures in households that do not meet the criteria of being in fuel poverty (e.g. if a communal heating system in a tower block needs upgrading).**
- (b) Identifies the costs for assisting households in fuel poverty to pay their energy bills, whilst they await energy efficiency upgrades in their households.**
- (c) Ensures that funding and programmes are in place to meet the needs in (a) and (b) above. Given the current low level of assistance with fuel bills and the need for industry to quickly set up programmes to install the energy efficiency measures required to meet the 2020 milestone, we request that Government announces their proposals in the 2016 Autumn Statement and their funding proposals in the 2017 March Budget Statement. These could include:**
 - significantly improving the targeting of funds towards households in fuel poverty from the existing Government ECO programme and the Government programmes included in the Fuel Poverty Delivery Scorecard (e.g. WFP, CWP, WHD);
 - attracting supplemental funding from other sources such as Privately Rented Sector Landlords, third parties, National Infrastructure funds (see Section 2) etc;
 - plans to ensure a smooth transition between meeting the 2020 milestone and starting work towards meeting the 2025 milestone.

As indicative examples of how funding gaps could be closed for the 2020 and 2025 milestones, we show the following:

Table 2

£ millions	2020 Band E Milestone	2025 Band D Milestone
Total required funding (based on Committee on Climate Change report plus 10% admin costs)	1,837	5,610
Funding from existing ECO, assuming substantially better targeting*	550 to 750	900
New legislation requiring Privately rented sector landlords pay the significant majority of costs to upgrade PRS energy efficiency in line with fuel poverty strategy (Section 2)**	650	1,600
Gap to be filled from re-aligning existing Government programmes or attracting funding from other sources (see Section 2)	640 to 440	3,110

* Our future estimates for ECO targeting on Bands F&G households in fuel poverty are based on a set of optimistic assumptions (we have sought to be optimistic in these so as not to risk overstating the gap) in which all of the obligation funds are spent on a fuel poverty obligation from 2018/19, a high proportion of this (60% to 80%) reaching households in fuel poverty, and a high percentage (80%) of this amount going to households in Bands F&G. We have then assumed that 80% of the funds reaching households in fuel poverty will go to Band E during 2020/21 and 2021/22 (noting there is no commitment to funding the obligation beyond this date).

** Our estimates for this funding towards the private rented sector are based on: an estimate of how much of the total cost of reaching the 2020 milestone (£1.87bn) needs to be directed to the private sector (43% of households in fuel poverty in Bands F&G are in the sector, so we have calculated an approximate cost of £800m), and allowed for the fact that for various reasons this is unlikely to be fully-funded by private landlords. The same methodology is applied to properties in Band E for the 2025 milestone period.

Section two

There will be additional sources of finance in place from other sources to help fund household energy saving measures to meet the fuel poverty milestones and target

2.33 We reference our concerns in section one of this report that there will not be sufficient funds in place from existing and planned programmes to reach the fuel poverty target and milestones. The Committee has considered alternative funding streams which could help significantly improve the likelihood of reaching the target and milestones or – better still – to accelerate progress. Indeed, based on our current estimates, additional funding will be necessary to make progress against the fuel poverty target and milestones.

National Infrastructure Plan

2.34 The National Infrastructure Plan enables long term decisions to be taken to build an effective and efficient infrastructure for the UK. Inclusion of energy efficiency improvements to underpin the UK's housing infrastructure in National Infrastructure Plans could help unlock further funding for tackling fuel poverty opening up access to the proposed £100 billion public infrastructure spend over the next parliament. The initial plans have addressed energy distribution and systems, but not energy efficiency.

2.35 A case for inclusion was made by FPAG, who noted that energy efficiency meets key Treasury criteria for being classified as infrastructure spend, such as:

- immediate and long-term economic benefits;
- increasing the capacity and resilience of the economy;
- reducing environmental impacts;
- linked benefits with other forms of infrastructure (such as the NHS).

2.36 The Energy and Climate Change Committee, in its report on its inquiry into home energy efficiency and demand reduction²⁰, recommended that the National Infrastructure Commission (NIC) should assess the potential benefits of designating energy efficiency as a national infrastructure priority.

2.37 We note that the current NIC consultation, on the methodology and processes that will be used to inform and produce the National Infrastructure Assessment, states that the

²⁰ Home energy efficiency and demand reduction, Energy and Climate Change Committee, House of Commons, March 2016, paragraph 89:
http://www.publications.parliament.uk/pa/cm201516/cmselect/cmenergy/552/55207.htm#_idTextAnchor054

NIC will explore the role that energy efficiency could play. We responded to the consultation, welcoming this, outlining how tackling fuel poverty could address one of the NIC's objectives – this being to improve the quality of life for those living in the UK, and noting that designation of energy efficiency as a national infrastructure priority could help address fuel poverty, accelerate progress against the targets, and prevent others from falling into fuel poverty. We have offered to discuss this further with the NIC.

Private sector finance

2.38 We have discussed with several stakeholders opportunities to attract more private finance to help tackle fuel poverty. This is an area which we will continue to investigate, but our investigations suggest that there could be considerable scope in particular from pension funds that have an interest in lending for the long term. With rates at historic lows it should be possible to fund energy savings if structured correctly. As households in fuel poverty rarely have spare money, we do not think that it is right for them to effectively be excluded from obtaining benefits from schemes that require households to make up-front payments (e.g. Renewable Heat Incentive). We are therefore encouraged by the Government's consideration of Assignment of Rights in the recent Renewable Heat Incentive consultation²¹.

2.39 We also believe that there is merit in maintaining the pay-as-you-save (PAYS) mechanism developed under the Green Deal. There were many problems with the Green Deal, but this does not mean that the PAYS mechanism does not have benefit and we would like more discussion about how this could be made to work in the best interests of the fuel poor particularly where high cost interventions are made which benefit both the resident and investor (e.g. renewable heating/power solutions which attract a Feed-In-Tariff and/or new tariff arrangements). In any such arrangements, it will be essential to ensure that households in fuel poverty are not exposed to financial risks or need to commit up-front payments. There may also be issues of trust and consumer confidence to deal with here, given some customer experiences with the Green Deal.

²¹ The Renewable Heat Incentive: A reformed and refocused scheme, DECC, March 2016, p.41: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/505972/The_Renewable_Heat_Incentive_-_A_reformed_and_refocussed_scheme.pdf

Section three

Health agencies, local authorities and practitioners will recognise the impacts of cold homes and will be engaged in delivering solutions

2.40 Our discussions to date on encouraging more effective action at local level have focussed on three main areas, each of which suggests valuable opportunities.

2.41 First, we recognise the huge amount of work put in by local authorities, for instance through local energy and environment officers. We have heard strong views about how local authorities could play a bigger role, noting their local knowledge and understanding of households, including vulnerable people. They offer the scope to help with identifying households in fuel poverty and delivering the right measures effectively. This aligns with the proposal for local authority involvement in ECO, discussed on page 26.

2.42 We also recognise, however, that not all local authorities have the will or the means to take on a greater role in this area. The requirements and burdens on local authorities are increasing, whereas their resources generally are not.

2.43 Second, we believe there are significant opportunities as a result of developments in devolution. For instance, recent devolution agreements for the Great Manchester Combined Authority (GMCA) and the North East Combined Authorities (NECA) provide strong platforms on which future fuel poverty services could be built.

2.44 Third are the developments in the delivery of health and social care. We have been discussing with stakeholders the range of organisations that could play a part, such as Health and Wellbeing Boards and National Institute for Health and Care Excellence (NICE) implementation teams. The 44 local Sustainability and Transformation Plans (STPs) to 2020/21 bringing together health and social care could reflect the challenges of fuel poverty and its impact on wellbeing and healthcare. There is much work to do here, to understand what organisations could and should be involved, understanding what their motivations might be and how to bring about their involvement.

2.45 We welcome the guidance and quality standards on cold related illnesses by NICE and, particularly with regard to responsibilities for delivery of health, housing and social care. We note however that this is only 'guidance' and have concerns about how many local authorities will fund and adopt the guidance.

2.46 A goal for us, working with others, will be to demonstrate that health and social care objectives can be met by helping to address fuel poverty. Through growing a body of evidence we can make the case that resources should be directed towards fuel poverty objectives.

2.47 The types of activities we envisage are identifying households in fuel poverty, better coordinating and targeting potential support and providing advice and information, often working with other community organisations, and improving the efficiency of the housing stock.

2.48 We recommend that tackling fuel poverty, including improving and replacing the inefficient housing stock, should be part of the devolution agenda. We also recommend that local authorities should be empowered to support and champion community-based energy efficiency initiatives and local health commissioners to act on the link between cold homes and ill health to commission appropriate interventions.

Section four

Regulatory changes will have demonstrably positive outcomes for households in fuel poverty

Competition and Markets Authority – Energy market investigation

2.49 The Competition and Markets Authority (CMA) was asked in 2014 by Ofgem to investigate the energy market in Great Britain. The investigation looked at competition issues across retail and wholesale markets, and was required to identify any restrictions or distortions of competition and decide, where these existed, on recommending remedies.

2.50 The CMA recommended a number of remedies for Ofgem and others to implement which were of particular relevance to households in fuel poverty and vulnerable people. There was a particular focus on prepayment meter customers. 25% of households in fuel poverty use pre-payment meters. This is much higher than the national average of 16%. We note that all prepayment customers will be moved to a capped tariff until smart meters are installed and this will on average reduce their annual bills by £75 a year. The impact on fuel poverty is not clear at this stage. Whilst this bill reduction will clearly be of benefit to households in fuel poverty on prepayment tariffs, there may be other fuel poor households, not on prepayment tariffs, who contribute to the costs of implementing the cap. We will look to see what the impacts are on the numbers in fuel poverty – although our immediate estimate is that this is likely to be limited – and on the fuel poverty gap. Additionally Ofgem is setting up a database of customers on standard variable tariffs who have not switched for more than three years, and these customers will receive offers from other companies that could potentially reduce their bills. Again, the impact on the numbers in fuel poverty, and on the fuel poverty gap, is unclear at present **and CFP recommend that Ofgem report to BEIS on the impacts and contribution these CMA remedies will have on fuel poverty.**

Housing Health and Safety Rating System

2.51 The Housing Health and Safety Rating System (HHSRS) is designed to help local authorities identify and protect against potential risks and hazards to health and safety from any deficiencies identified in dwellings. Risks are given scores, and for those in higher classes, local authorities have powers to enforce remedial actions. Threats to health from damp and mould growth and threats to health from sub-optimal indoor temperatures are included in the system, but both attract scores which may be too low to trigger enforcement action. **We recommend that the current guideline scores for the health and safety impact of cold homes on children and pensioners are reviewed (and updated if necessary) in light of the latest studies on health effects from cold homes.**

2.52 Some stakeholders have discussed with us the enforcement of the HHSRS and whether there is scope for it becoming a more effective tool to help tackle fuel poverty. **We**

believe there is a strong case for strengthening enforcement action where regulations exist to protect households potentially at risk from cold homes and we would welcome discussion with stakeholders on the possibilities and an appropriate funding mechanism for enforcement action.

Private Rented Sector (PRS) regulations

2.53 In England, there are around 360,000 properties in the private rented sector with energy efficiency ratings of F or G (out of a total number of 4.5 million PRS properties). 20% of PRS households are in fuel poverty, compared with 10% of households overall. Clearly the raising of standards in this group will be critical to reaching the FP milestones.

2.54 On a pro-rata basis, the cost for upgrading the Band F/G privately rented households in fuel poverty to Band E is circa £800 million of the £1.87 billion total cost for meeting the 2020 milestone. On a similar pro-rata basis, to meet the 2025 milestone, it will cost a further circa £2 billion to upgrade privately rented households in fuel poverty to Band D.

2.55 Minimum energy efficiency standards for the private rented sector present an opportunity to reduce fuel poverty. From April 2018, landlords will not be able to rent out properties with energy efficiency ratings below EPC Band E. There are, however, numerous exemptions to this. A key one is that if a landlord cannot access finance to fully cover the costs of improvements, they will not need to install any energy efficiency measures.

2.56 Furthermore, some of the Private Landlords' costs were to be funded by the Green Deal which would have avoided any up-front costs for the landlord, as loan repayments are made via applying a supplement to future electricity bills. However, Government withdrew support from the Green Deal Finance Company in July 2015 and so there is a gap as to how the assumed PRS energy efficiency measures will be funded.

2.57 We understand that the Government has been discussing options with stakeholders and that, among these, is a requirement that landlords fund the necessary action to bring F and G properties up to Band E, as long as the cost falls within a capped amount, and that this may be up to £5,000 although no decisions have been taken on this yet. If a cap were introduced, it has been suggested that this could be inclusive of any supplier obligation funding that the landlord could access (though again no decisions have been taken on this).

2.58 We await the Government's formal proposals in this area, but we would fully support any option that will ensure proper funding. Our view is that a cap of around £5,000 for the landlords' expense is proportionate, and can help bring about substantial improvements without imposing unreasonable burdens on landlords or the need for these costs to be passed through to tenants via higher rents. In some cases, properties will need investment at levels beyond such a cap to bring them up to Band E. Consequently,

we are keen to explore whether some future ECO funding could be ring-fenced to help achieve these levels of investment. This would only require a relatively small percentage of the ECO budget.

2.59 We are also extremely concerned that there will be a lack of time within which to implement any regulation, and on current schedules it seems unlikely that requirements could be in force before 2018, leaving very little time for measures to be installed before the 2020 milestone.

2.60 Alongside any requirement on investment by landlords there needs to be better enforcement generally of requirements in the sector. We understand, for instance, that all landlords are required in law to provide Energy Performance Certificates (EPCs) to prospective tenants, but there appears to be insufficient enforcement of this.

2.61 Also alongside such requirements, we recommend that the Landlord's Energy Savings Allowance (LESA) – a former tax allowance on energy saving expenditure by landlords – is re-introduced. LESA was, we understand, a little-used allowance, but it could have played a useful role, at a relatively low cost, in achieving the Government's aims and avoiding rental increases associated with investment costs.

2.62 Given the large gap in available Government funds to meet the 2020/25 milestones and 2030 fuel poverty target, we believe that there is a strong case for regulation which will require landlords to upgrade energy efficiency according to the fuel poverty 2020/2025 milestones and the 2030 target. **The CFP recommends that the Government implements regulations requiring private landlords to upgrade their properties up to Band E up to a cap of £5k spend per property supplemented by ECO where additional measures are needed.**

Section five

The energy market will function for households in fuel poverty

Switching and engagement in the energy supply market

2.63 The former DECC, working with stakeholders, has run some campaigns to encourage customers to switch energy suppliers. In addition, initiatives such as the Big Energy Saving Network and Big Energy Saving Week have facilitated a focus on encouraging a wide range of consumers including, but not limited to, fuel poor households, people on low incomes and/or on benefits, people with disabilities or long term health conditions, those who use prepayment meters, those without internet access and those who have not switched before to switch (plus save money through energy efficiency).

2.64 We understand that BEIS is currently planning a campaign for this winter. We believe there is scope for this switching campaign to focus on the fuel poor, and we have raised the need to ensure there is a clear message and focus for fuel poor households who could most benefit from lower tariffs and who may need more support to switch.

2.65 The recent CMA report on its energy market investigation noted that most customers of the six largest energy suppliers could have made considerable savings from switching to a combination of suppliers, tariffs and payment methods, and that for some categories of customer the average gains from switching were more than 20% of their bill over the period²².

2.66 We do not have data to show the extent to which households in fuel poverty specifically are disengaged from the market, but the CMA report indicated far lower engagement among low income and prepayment customers. It noted that:

- (excluding prepayment customers) those households who are in rented accommodation, have incomes below £18,000 or are in receipt of WHD rebate, have higher gains to make from switching;
- there is a higher proportion of households on lower incomes who are disengaged and inactive;
- a higher proportion of prepayment customers are less engaged than direct debit customers.

²² Energy market investigation, Final report, Competition & Markets Authority, June 2016, p.6: <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf>

2.67 The CMA report recommended a programme of identifying, testing and implementing measures to promote engagement in domestic energy markets²³. We will look to liaise with Ofgem to understand how the trials could target and benefit households in fuel poverty.

2.68 Another area of concern is switching rates in rented accommodation which is significantly lower than in privately-owned households²⁴. We believe that more needs to be done to explain tenants' rights to switch providers and to promote switching.

2.69 The CMA report discusses barriers to switching, including those to accessing and assessing information. A well designed campaign could help remove such barriers.

2.70 **Given the plans to run a further campaign this year, this appears to present a clear early opportunity and we recommend that BEIS ensures a proper and effective focus on fuel poor households.** We would question the value of spending further public money on one which did not have such a focus. It will be important to understand the success of any future campaigns in getting fuel poor consumers to switch, to know what works and what doesn't, so we would encourage effective monitoring and evaluation.

2.71 Such a campaign might also usefully include reminders to tenants of their rights to switch energy suppliers (except where landlords pay for the energy supply), or of having prepayment meters removed or installed. It could also remind off-gas grid customers of the benefits of shopping around for oil or LPG and of joining an oil buying club to get discounts and buy when prices are lower (alternatively, this might be better included in a separate information campaign aimed at off-gas customers).

Warm Home Discount rebates

2.72 It should be noted that WHD can in some instances act as a disincentive to switch to many smaller suppliers. Only suppliers with 250,000 or more domestic customer accounts are required to participate, although suppliers below this threshold may choose to do so. For 2015/16 there were twelve suppliers providing WHD (encouragingly, a further three suppliers last month volunteered to participate in the core group – the first to have done so since WHD began). An unintended effect is that customers switching from a participating to a non-participating supplier lose their WHD payment. This may act as a disincentive to switch in cases where any net benefit is wiped out by the loss of a WHD payment. It may also seem perplexing and confusing to the customer.

2.73 The Government response to the WHD consultation noted a high level of support for reducing the participation threshold to below 250,000 customer accounts, with many in

²³ Energy market investigation, Final report, Competition & Markets Authority (see footnote 22), p649

²⁴ Energy market investigation, Final report, Competition & Markets Authority (see footnote 22), p.448

favour of a threshold of 50,000 accounts. It stated that the Government would keep this under review, with a view to a possible change in future. **We support such a move and recommend that the Government reduces the participation threshold for WHD to 50,000 customer accounts as soon as is practicable. In addition, where switching sites are concerned they should always disclose before switching a customer to a small supplier if that supplier does not offer WHD rebates.**

Section six

Households in fuel poverty will be well-informed and advised on assistance available from different sources and actions they can take

2.74 We know that, ultimately, the only way to end fuel poverty is to substantially improve the fabric of millions of properties. This is a long term task. Well-informed households should be able to better understand and access the type of help that might be available to improve their homes, but in the meantime they should also be better able to understand how to otherwise reduce their bills and maximise their income to help households in fuel poverty to heat their homes to acceptable levels. They may not reduce the numbers in fuel poverty but they can help reduce the gap.

2.75 We have heard the views of many stakeholders on areas where fuel poor households could be better informed, and there is a body of evidence across several areas. We are thinking here about customers with early smart meters who do not really understand how to use them to save energy, about households with no online access of their own who have no awareness of how they might switch energy supplier (or of how doing so could help them), of people interested in moving to park homes who may be unaware of how much it will cost them to heat their home, and of householders who would like to improve the energy efficiency of their house but have held off doing so because of scare stories of rogue companies.

2.76 There appears to be an early opportunity to build on two key areas of work, to link these up with other initiatives in a bid to drive benefits for fuel poor households. The first is the Bonfield Review; the second is the smart meter roll-out.

Bonfield Review

2.77 The Bonfield Review is due to report shortly²⁵. The report will be the culmination of a wide-ranging, in-depth independent review of consumer advice, protection, standards and enforcement for energy efficiency and renewable energy.

2.78 Among other things, we are envisaging that the review will lead to the provision of simpler, more practical advice on energy efficiency to be provided in a consistent manner that consumers can understand. Part of this could be a single information portal for quality, approved information.

2.79 We also envisage that outcomes from the review will aim to raise and secure standards in energy efficiency, and improve consumer confidence. Our understanding is

²⁵ Bonfield review terms of reference: <https://www.gov.uk/government/publications/bonfield-review-terms-of-reference>

that there may be the introduction of a new quality mark, a consumer charter and a code of conduct.

2.80 These outcomes will be vital for ensuring proper delivery and will need to underpin ECO and future supplier obligations, and drive improvements that must be applied in any scheme tackling fuel poverty.

Smart Metering

2.81 The Government has mandated that by 2020 nearly all households will have smart electricity and gas meters. They can help customers understand their bills and see what the energy they use is costing. They can also help households to control, and potentially reduce, their energy use, leading to bill savings.

2.82 To make savings, householders will need to understand the information they can get from their meters, and how to use this to save energy. The Government has recognised that all consumers should be provided with some information to help with their understanding. It has also recognised that some consumers will need extra help.

2.83 The Smart Metering Installation Code of Practice²⁶ requires that, when a smart meter is installed, customers are offered guidance on how to use their smart metering system to improve their energy efficiency, and offered further guidance on energy efficiency. Extra steps are required for defined vulnerable consumers. Some stakeholders have reported, however, that customers are often not being given sufficient information pre, at, and post installation.

2.84 We believe that smart meters could be of significant benefit to households in fuel poverty. As well as the scope for saving energy and reducing bills, they also offer the opportunity to end any sense of stigma around prepayment meters (in future there will not be “prepayment meters” as such – all meters will be smart meters that can operate in either prepay or credit mode). They also offer the prospect of reducing the costs of prepayment tariffs, as there will be significantly lower additional “costs to serve” to include in tariffs. For those who have relied on estimated bills and have run into debt they will also be able to monitor costs.

2.85 The risks are that customers – fuel poor and otherwise – are not sufficiently engaged and do not understand how to reduce their costs by understanding their smart meters. There is also the additional risk that some customers – particularly vulnerable customers – may respond to the additional information they see on their energy consumption by turning down their heating when they shouldn’t, possibly taking action

²⁶ Smart Metering Installation Code of Practice, April 2013: <https://www.ofgem.gov.uk/ofgem-publications/57316/smartmeteringinstallationcodeofpractice-pdf>

which puts their health at risk. This underlines the importance of effective engagement with all households.

2.86 Accessibility of information from meters, whether through in-home displays or other devices, will also be important. All types of consumers need to be able to see relevant data presented in an understandable way. A welcome initiative in this area is the work that the Royal National Institute of Blind People has been doing with Energy UK to develop in-home displays for the visually impaired.

2.87 We understand that the smart metering programme continues to work with stakeholders to ensure that consumers can best be engaged with smart meters. We want to ensure that there is proper focus on fuel poor households.

Provision of advice

2.88 The Government and Ofgem have supported local advice agencies which assist lower income energy customers to benefit from the market – either from switching, energy saving schemes or rebates. Good quality advice, preferably delivered face-to-face, is essential, as fuel poverty solutions can be complex. Trusted third parties with the necessary knowledge and skills are well placed to deliver this advice or to refer people on to their energy supplier or the Energy Saving Advice Service advice line.

Park homes

2.89 There are also more specific areas where there are opportunities to better inform households in fuel poverty of the action they can take and the solutions available. Park home households represent a small percentage of the total in fuel poverty, but they appear to suffer on average from deeper fuel poverty. Measures to improve the energy efficiency of park homes can be more expensive than average; construction quality can vary and more specific skills and knowledge are needed to install energy efficiency measures.

2.90 There are longer term challenges in tackling these specific problems, but we also feel there is an opportunity to provide some benefit in the short term by improving the information that park home residents – and potential park home residents – have, for instance on the costs of heating their homes and on their rights to change energy suppliers.

2.91 We support the trial to ensure park home residents receive WHD payments, having been to this point excluded, and **recommend they are entitled to benefit from energy rebates like other households.**

The opportunity

2.92 This is another area where there is much more work to do, but there appears to be what might be a one-off opportunity to make a step-change. The Bonfield Review will help with ensuring greater understanding of what energy efficiency measures will be suitable for households, and improving confidence in the sector; smart metering can help bring about

increased consumer engagement with energy, and potentially trigger behaviour changes (as long as consumers receive the necessary help with understanding their meters and what they can do with the data from them). Alongside this, there needs to be high quality and properly resourced advice, tailored for different types of consumer, on areas such as switching, tariffs and energy saving. Where third sector organisations are involved in delivery, they too need to be properly resourced.

2.93 We recommend that the Government recognises the importance and different facets of energy advice and ensure adequate resources are in place for high quality services, offered in a bespoke way that results in meaningful outcomes for fuel poor households.

Part three

Recommendations

Summary list

1. We have shown that there are currently significant shortfalls in funding to meet the 2020/25 milestones and 2030 household energy efficiency target and assist households in fuel poverty to pay their energy bills. Given the proximity of the 2020 milestone and the current low level of assistance that those in fuel poverty are receiving to pay their fuel bills, Government needs to take urgent action. We therefore recommend that Government:

- (a) Identifies the types and costs of household energy efficiency measures (including administration costs) that are required to meet the 2030 fuel poverty target and the 2020/25 milestones. This should take into account such things as the expected levels of inefficiency due to a lack of addresses for some households in fuel poverty and the possible requirement to install some energy efficiency measures in households that do not meet the criteria of being in fuel poverty (e.g. if a communal heating system in a tower block needs upgrading).
- (b) Identifies the costs for assisting households in fuel poverty to pay their energy bills, whilst they await energy efficiency upgrades in their households.
- (c) Ensures that funding and programmes are in place to meet the needs in (a) and (b) above. Given the current low level of assistance with fuel bills and the need for industry to quickly set up programmes to install the energy efficiency measures required to meet the 2020 milestone, we request that Government announces their proposals in the 2016 Autumn Statement and their funding proposals in the 2017 March Budget Statement. These could include:
 - significantly improving the targeting of funds towards households in fuel poverty from the existing Government ECO programme and the Government programmes included in the Fuel Poverty Delivery Scorecard (e.g. WFP, CWP, WHD);
 - attracting supplemental funding from other sources such as Privately Rented Sector Landlords, third parties, National Infrastructure funds (see Section 2) etc;
 - plans to ensure a smooth transition between meeting the 2020 milestone and starting work towards meeting the 2025 milestone.

2. We recommend that future ECO programmes are designed in such a way so as to deliver the fuel poverty milestones and target in the most cost effective way. This may

require such changes as introducing new energy efficiency measures into ECO or adjusting the ECO scoring for different energy efficiency measures. When designing the new ECO schemes, it is important to listen to those involved in the delivery of schemes and what will drive them. Furthermore, the design of future ECO programmes should reflect that the prime objective for ECO is to deliver Fuel Poverty household SAP Band rating improvements and not carbon abatement, achieving Government's manifesto commitment to raise the energy efficiency of over 1,000,000 households or attracting third party contributions.

3. Given that knowing the addresses of those in fuel poverty is critical for the success of the Strategy, we recommend that high priority is given by Government to ensure that appropriate Data Sharing legislation is introduced within the currently envisaged timeframe of late 2017/early 2018.

4. We recommend that households in fuel poverty should receive assistance with paying their energy bills whilst they await installation of energy efficiency measures.

5. We recommend that Government continue to prioritise assistance to the most severely fuel poor. A 'targeting efficiency metric' should therefore be added for each Government programme in the Fuel Poverty Delivery Scorecard (e.g. WFP, WHD, CWP, ECO) which can be used to track the progress of improving programme targeting efficiency on those in fuel poverty.

6. We recommend that the Government implements regulations requiring private landlords to upgrade their properties up to Band E up to a cap of £5k spend per property supplemented by ECO where additional measures are needed.

7. We recommend that the Landlord's Energy Savings Allowance (LESA) – a former tax allowance on energy saving expenditure by landlords – is re-introduced.

8. We recommend that the current HHSRS guideline scores for the health and safety impact of cold homes on children and pensioners are reviewed (and updated if necessary) in light of the latest studies on health effects from cold homes.

9. We believe there is a strong case for strengthening enforcement action where regulations exist to protect households potentially at risk from cold homes and we would welcome discussion with stakeholders on the possibilities and an appropriate funding mechanism for enforcement action.

10. We recommend that Ofgem report to BEIS on the impacts and contribution the CMA remedies will have on fuel poverty.

11. We recommend that tackling fuel poverty, including improving and replacing the inefficient housing stock, should be part of the devolution agenda. We also recommend

that local authorities should be empowered to support and champion community-based energy efficiency initiatives and local health commissioners to act on the link between cold homes and ill health to commission appropriate interventions.

12. Given the plans to run a further energy supplier switching campaign this year, this appears to present a clear early opportunity and we recommend that BEIS ensures a proper and effective focus on fuel poor households. We would question the value of spending further public money on one which did not have such a focus.

13. We support reducing the participation threshold for WHD to 50,000 customer accounts as soon as is practicable. In addition, where switching sites are concerned they should always disclose before switching a customer to a small supplier if that supplier does not offer a WHD rebate.

14. We recommend that park home residents are entitled to benefit from WHD energy rebates like other households.

15. We recommend that the Government recognises the importance and different facets of energy advice and ensure adequate resources are in place for high quality services, offered in a bespoke way that results in meaningful outcomes for fuel poor households.

Next steps

Sub-groups

3.1 The complexity and scale of the issues mean that, given the size of the Committee, there are areas where we need extra, expert input. One area already identified is in tackling the particular problems faced by households in fuel poverty which are off the gas grid where some of the deepest levels of fuel poverty can be found. Providing energy efficiency solutions in households without a connection to the gas grid may be both more complex and expensive (e.g. is there a way to connect the household to lower cost fuels such as gas?). A sub-group of the CFP is currently being established. It will build on the excellent work of the Industry Working Group on Off-Gas Grid, which reported to the former FPAG.

3.2 We will be looking to set up other sub-groups as and when necessary. Their timescales, membership and terms of reference will vary, depending on what is needed.

3.3 Areas for which we are considering establishing other sub-groups include improving targeting of households in fuel poverty (e.g. engaging the health sector to assist in identifying those in fuel poverty who are vulnerable), improving methods to engage

households to gain their agreement to install energy efficiency measures, and getting a better understanding of the impact of Universal Credit on households in fuel poverty.

Stakeholder views

3.4 More generally, we would welcome feedback and comments on this report. This is not a consultation, but views are welcome, in the first instance addressed to cfp@beis.gov.uk

Priorities for the coming year

3.5 We will be further developing our priorities for the coming year (and these will of course develop through the year), but they are likely to include:

- providing advice to BEIS prior to the formal consultation on ECO from 2018-22;
- engaging with colleagues offering advice on fuel poverty to the devolved nations;
- engaging with other Government departments including the Treasury, the Department for Communities and Local Government, Department of Health and Health and Department for Work & Pensions; to understand the impact of their policies on the Government's Fuel Poverty strategy;
- impacts following the outcomes of the CMA energy market investigation (including the prepayment meter price cap);
- Bonfield report implementation;
- targeting of main fuel poverty schemes;
- encouraging progress of the Digital Economy Bill (which includes the data sharing provisions discussed above).

3.6 In addition, we will work with Government departments to ensure we understand in which areas they would find it most valuable to receive advice.

Appendix 1

The fuel poverty strategy, target and milestones

Responsibilities for tackling fuel poverty are devolved and set in primary legislation. In England, the Secretary of State for Business, Energy and Industrial Strategy is under a duty to set out a fuel poverty strategy which:

- describes the households to which it applies;
- specifies a comprehensive package of measures for ensuring the efficient use of energy;
- specifies a target date for achieving the objective of ensuring that as far as reasonably practicable persons in England do not live in fuel poverty; and
- specifies interim objectives and target dates for achieving them.

In 2014, the Government set the fuel poverty target: to ensure that as many fuel poor households as is reasonably practicable achieve a minimum energy efficiency rating of Band C by 2030.

In 2015, the Government published its fuel poverty strategy. This included setting interim milestones so that as many fuel poor households as is reasonably practicable are in Band E by 2020 and Band D by 2025.

The focus of the strategy, therefore, is on energy efficiency bands, and moving households in fuel poverty up through the bands.

Energy efficiency bands rate the energy efficiency of properties from A (most efficient) to G (least efficient). They are compiled using what's known as the Standard Assessment Procedure (SAP), which assesses how much energy a property will consume when delivering a defined level of comfort and service provision. For measuring progress against the fuel poverty target, however, a specific methodology is used: the Fuel Poverty Energy Efficiency Rating is based SAP on but with adjustments to reflect energy bill interventions that are not reflected in SAP but directly affect the cost of energy.

Moving a household's energy efficiency up to Band C does not necessarily remove it from fuel poverty, but it can lead to a dramatic improvement in the ability of that household to

heat their home. The difference can be illustrated by the average fuel poverty gaps across energy efficiency bands²⁷:

- For A-C rated homes the fuel poverty gap is **£196**;
- D rated homes have an average gap of **£199**
- E homes have an average gap of **£447**
- F homes have an average gap of **£966**
- G homes have an average gap of **£1345**

It would take moving households to Band B, before substantially all of the households are removed from fuel poverty.

As household energy efficiency is improved, energy bills will come down, become more affordable and the depth of fuel poverty will be reduced. The fuel poverty strategy therefore rightly also includes a focus on the *depth* of fuel poverty. Meanwhile, there will always be a focus on the *total numbers* in fuel poverty

²⁷ Fuel Poverty detailed tables: 2014, National Statistics, June 2016:
<https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2014>

Appendix 2

The Low Income / High Cost fuel poverty indicator versus the “10%” indicator

- In England, for a household to be in fuel poverty, a household must:
 - have an income after housing costs of less than 60% of the national median level (often referred to as living below the Poverty Line); *and*
 - need to spend more than the national median amount on household energy costs for lighting, cooking, appliance usage, hot water and heating rooms to acceptable levels (usually defined as 21C for the main living area).
- This indicator of fuel poverty is called the Low Income, High Cost indicator (LIHC).
- The LIHC indicator was adopted for England by the Government following an independent review of the fuel poverty definition led by Professor Sir John Hills²⁸. The Government accepted Professor Hills’ argument that the definition that had been adopted since 2001 was flawed. Under this definition, a household was defined as fuel poor if it needed to spend more than 10% of its income on energy to maintain an adequate standard of warmth and was on a low income.
- The LIHC indicator makes a clearer link between needed expenditure on energy and income levels.
- It can enable a better understanding of who faces the most severe problems, and examine the drivers of the problems.
- It enables measurement of not only how many households are in fuel poverty but also how badly affected each fuel poor household is affected by high energy costs. The energy costs reflect the size, type and energy efficiency of a household and the type of fuel used. In general, households in fuel poverty live in accommodation that is much less energy efficient than average and are also often unable to access lower cost fuels such as network gas and cheaper tariffs.
- Scotland, Wales and Northern Ireland have not changed the definition used for fuel poverty, so the 10% indicator still applies in those nations of the UK.

²⁸ Getting the measure of fuel poverty - Final report of the fuel poverty review, Prof. John Hills (see footnote 3),

Due to the methodology of the LIHC definition, this total number is unlikely to reduce significantly until at least 2025 when we are due to see significant progress towards EPC Band D properties. But we do expect to see a significant reduction in the fuel poverty gap as the strategy rolls out. This will mean that energy policies become more progressive and that those on lower incomes see greater reductions in energy prices they have to pay and their homes are improved at a faster rate than higher income households.

Whilst it is important to keep driving at reducing the numbers of fuel poor households, if the numbers don't come down this doesn't in itself signify a lack of progress, as the depth in fuel poverty could be falling.

The Low Income / High Cost fuel poverty indicator – a relative measure

- The total number of households in fuel poverty is a relative measurement. The Low Income-High Costs indicator defines fuel poverty as the combination of facing high energy costs and having low income.
- Whilst there are significant advantages to the Low Income-High Cost model, a consequence of it being a relative measure is that the total number of households in fuel poverty may be unlikely to change significantly, even if substantial numbers move up through the EPC Bands, or benefit from increases in income.
- For instance, reductions in required energy needs within the fuel poor population will often reduce the fuel poverty gap faced by those households, but may not move them out of fuel poverty. At the same time, such an effect *could* decrease the energy needs of the population as a whole, leading to a less than proportionate reduction in the number of households above the median energy need.
- The definition should however drive greater focus on fuel poverty in the energy markets and energy efficiency schemes, although it must be remembered that for some households taken out of fuel poverty, energy costs could still represent a high percentage of their income.
- The total number in fuel poverty is also affected by the changes in income levels and energy prices.

Appendix 3

Documents, policies and programmes reviewed

Fuel poverty strategy and policy

- Fuel Poverty Advisory Group, 12th Annual Report (2013-14), February 2015: <https://www.gov.uk/government/publications/fuel-poverty-advisory-group-for-england-12th-annual-report-2013-14>
- Cutting the cost of keeping warm – A fuel poverty strategy for England, DECC, March 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408644/cutting_the_cost_of_keeping_warm.pdf
- Getting the measure of fuel poverty – Final report of the fuel poverty review, Prof. John Hills, for DECC, March 2012: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48297/4662-getting-measure-fuel-pov-final-hills-rpt.pdf
- UK Fuel Poverty Monitor 2015-16 – A review of progress across the nations, NEA, Energy Action Scotland, May 2016: <http://www.nea.org.uk/resources/publications-and-resources/uk-fuel-poverty-monitor-2015-16/>

Energy policy

- Home energy efficiency and demand reduction, Energy and Climate Change Committee, House of Commons, March 2016: http://www.publications.parliament.uk/pa/cm201516/cmselect/cmenergy/552/55207.htm#_idTextAnchor054
- Energy market investigation, Final report, Competition & Markets Authority, June 2016: <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf>

Wider policy

- National Infrastructure Commission, Consultation on the National Infrastructure Assessment, Process and Methodology, May 2016: <https://www.gov.uk/government/consultations/national-infrastructure-assessment-consultation>
- Committee on Climate Change, The fifth carbon budget – the next steps towards a low-carbon economy, (Chapter 4 – Wider economic and social circumstances), November 2015: https://documents.theccc.org.uk/wp-content/uploads/2015/11/Fifth-Carbon-Budget_Ch4_Wider-economic-and-social-considerations.pdf

Funding, forecasting, statistics

- Meeting the proposed fuel poverty targets – Modelling the implications of the proposed fuel poverty targets using the National Household Model, Centre for Sustainable Energy (CSE) for the Committee on Climate Change, November 2014: https://www.theccc.org.uk/wp-content/uploads/2014/11/CCC_ModellingProposedFuelPovertyTargets_FinalReport_Nov2014.pdf
- Annual fuel poverty statistics report 2016, DECC/National Statistics, June 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/540034/Annual_Fuel_Poverty_Statistics_Report_2016_-_revised.pdf

Programmes, schemes and initiatives

- Bonfield Review
- ECO
 - ECO: Help to Heat, consultation, DECC, June 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/531964/ECO_Help_to_Heat_Consultation_Document_for_publication.pdf
 - Public Accounts Committee, report on household energy efficiency measures, July 2016: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news-parliament-2015/household-energy-efficiency-schemes-report-published-16-17/>
 - National Audit Office report on Green Deal and Energy Company Obligation, April 2016: <https://www.nao.org.uk/report/green-deal-and-energy-company-obligation/>
- Warm Home Discount
 - Warm Home Discount Scheme Consultation 2016/17, DECC, April 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/514324/Final_Warm_Home_Discount_consultation_for_publication.pdf
 - Warm Home Discount Scheme Consultation 2016/17, Government Response, DECC, June 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/531871/DECC_WHD_Government_response_FINAL_22_06_16.pdf
- Better use of data consultation, Cabinet Office, February 2016, p.13: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/503905/29-02-16_Data_Legislation_Proposals_-_Con_Doc_-_final_3_.pdf
- The Renewable Heat Incentive: A reformed and refocused scheme, DECC, March 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/505972/The_Renewable_Heat_Incentive_-_A_reformed_and_refocused_scheme.pdf

- Smart Metering Installation Code of Practice, April 2013:
<https://www.ofgem.gov.uk/ofgem-publications/57316/smartmeteringinstallationcodeofpractice-pdf>
- Off-gas grid issues:
 - Discussion with Jeremy Nesbitt, Managing Director of National Grid Affordable Warmth Solutions, regarding the work of the former FPAG's Independent Working Group.
- Winter Fuel Payment
 - Winter Fuel Payment, Great Britain Official Statistics at winter 2014/15, Department for Work & Pensions, p.2:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/462178/winter-fuel-payment-official-statistics-winter-2014-to-2015.pdf
 - A new future for social security – consultation on social security in Scotland, The Scottish Government, July 2016, p.60:
https://consult.scotland.gov.uk/social-security/social-security-in-scotland/supporting_documents/Consultation%20on%20social%20security%20in%20Scotland%20%20full%20version.pdf
- Private Rented Sector regulations
 - Response to All-Party Parliamentary Group for the private-rented sector's inquiry into energy efficiency, Association for the Conservation of Energy, November 2015: <http://www.ukace.org/2015/11/our-response-to-appg-for-the-private-rented-sectors-inquiry-into-energy-efficiency-in-private-rented-housing/>

Appendix 3

Glossary

BEIS – Department for Business, Energy and Industrial Strategy

CCC – Committee on Climate Change

CMA – Competition and Markets Authority

CSE – Centre for Sustainable Energy

CWP – Cold Weather Payment

DECC – Department of Energy & Climate Change

ECO – Energy Company Obligation

EPC – Energy Performance Certificate

FIT – Feed-in-Tariff

FPAG – Fuel Poverty Advisory Group

HHSRS – Housing Health and Safety Rating System

LESA – Landlord’s Energy Savings Allowance

NDPB – Non-Departmental Public Body

NIC – National Infrastructure Commission

NICE – National Institute for Health and Care Excellence

PAYS – Pay-as-you-Save

PRS – Private-Rented Sector

SAP – Standard Assessment Procedure

WFP – Winter Fuel Payment

WHD – Warm Home Discount

Appendix 4

Members of the Committee on Fuel Poverty

Tom Wright, CBE (Chair to 31 August 2016)

Dr Alice Maynard, CBA, DBA, C Dir

Jenny Saunders, OBE

Paul Massara

David R. Blakemore

Lawrence Slade



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