

Fuel Poverty Advisory Group
(for England)

Fifth Annual Report

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Summary and Key Recommendations

The next few months will be critical for fuel poverty. The Energy Review was extremely disappointing with very little on fuel poverty. However, the size and nature of the programmes to combat fuel poverty will be determined by the Energy White Paper and any resulting Energy Act; by the decisions on the levels of Warm Front funding in the Comprehensive Spending Review; and on the level and share of the Energy Efficiency Commitment (EEC) for low income customers. The extent of retail price reductions – as wholesale prices fall – both in general and for low income customers will also have a major impact on fuel poverty.

There will be twice as many vulnerable households in fuel poverty in England in 2007 as there were in 2004. So – as with the child poverty targets – the attainment of the fuel poverty targets is looking very challenging. There are signs that, in the light of the challenges, Government Departments may be beginning to work more closely together on fuel poverty, and also that consideration is being given to a range of solutions, e.g. social tariffs and sharing of information. **However, the Energy White Paper and the Warm Front/EEC decisions will be an important test of whether the Government is willing to deliver its fuel poverty objectives.**

We have revised, with help from DTI and Defra officials, our estimates of the resources required to meet the 2016 Fuel Poverty Target. **In broad terms, programmes of £1bn p.a. are required to 2016.** This is somewhat, but not too much, above the potential programmes of £850m p.a. for 2008-11, if our Warm Front and EEC proposals for these years are accepted. These programmes would need to be supplemented by other measures, especially benefit take-up and special price discounts for some low income customers.

So the 2016 target is challenging but attainable. It needs additional resources, some further measures on prices and incomes, and work across Government and Ofgem in a more effective and high profile way. The 2010 target remains very difficult.

Our key recommendations are:

- **The Government's continued commitment to the statutory fuel poverty targets should be underlined by the inclusion of fuel poverty targets in the Public Service Agreements (PSAs) for Defra and DTI, and the roles of other Departments should be clearly defined within the PSA framework.**
- We have carried out a comprehensive update of the estimate of the resources required to eradicate fuel poverty. As a result, we estimate that **a programme of about £1bn p.a. is needed from 2008 to 2016** in order to eradicate fuel poverty by 2016.

- This underlines the importance of the decisions about resources for the Fuel Poverty Programmes in the months to come. **It is essential, in our view, that Warm Front funding is at least maintained in 2008 to 2011 at the 2007/8 level of around £350m. Similarly, the share of low income customers (broadly the Priority Group) in EEC should not fall below 50%.**
- Some of the necessary measures will be “non-mainstream” – renewables and solid wall insulation. Special programmes, probably within existing schemes, for developing these and installing them will be important.
- **Fuel poverty targets should be included in the new Local Government Performance Framework** and in Local Area Agreements. This will be very important in stimulating more Local Authority (LA) activity on fuel poverty.
- **Energy efficiency standards for social housing need to be increased** either by an improvement in the Decent Homes Standard or by a duty on landlords to provide minimum SAP ratings by say 2016.
- **The extension of the gas network will be very helpful for fuel poverty** and we hope that the useful proposals being considered in Ofgem’s Gas Distribution Price Review will be implemented.
- It will be extremely important through the above programmes to increase the energy efficiency of low income homes and equipment. However, fuel poverty will not be eradicated by these measures alone. **It is a policy imperative that there are also measures to increase incomes via benefit take-up and to reduce fuel prices for low income customers.**
- **One particularly worrying trend is the increase in the gap between the prices paid by prepayment and direct debit customers. This was as high as £120 in 2006 – significantly up from about £75 in 2004 and previous years. This is profoundly unhelpful for fuel poverty.**
- **So further efforts need to be made to reduce the cost of payment methods for low income customers,** either by prepayment meters or Fuel Direct or banking/Post Office arrangements, drawing on the potential of current technology. This cuts across Government Departments and Ofgem, and **we would like to see Treasury take the lead with a determination to find a solution here.**
- In addition, price discounts (Social Tariffs) for a small number of customers, especially where energy efficiency or similar measures are impractical or very expensive, will also play a role and **any Energy Legislation should contain an enabling clause for Social Tariffs.**

- **More generally, it will be extremely important to keep electricity and gas prices as low as possible.** As wholesale prices fall, retail prices must follow. Ofgem has made helpful remarks about this and prices have started to fall, but we are not sure that Ofgem has carried out the work needed to monitor that prices are falling adequately for customers in general and prepayment customers in particular. In addition, prices will be higher than necessary as a result of Ofgem's electricity transmission and gas distribution, one year price control reviews. We look forward to a more balanced settlement in the 5 year gas distribution price review.
- The sales of the local distribution companies (LDZs) by National Grid seem to us – because of the way they were implemented – to have been contrary to customers' interests. Gas distribution charges have certainly not been reduced as a result of the changes, as the Public Accounts Committee recently noted. Ofgem claims that it did not have the powers to secure some of the benefits from the sale of the LDZs for customers, including low income customers. **Any Energy Legislation should provide such powers for Ofgem so that customers can be properly protected in future.**
- **Customers in need will be targeted more efficiently and at lower cost if – with the necessary and appropriate safeguards – Department of Work and Pensions (DWP) and HM Customs and Revenue information about customers on Benefits, and LA information on Council Tax and Housing Benefit could be used more extensively, and if the data on the energy efficiency of buildings, being obtained under the EU Buildings Directive, could be made available to LAs and others.** The necessary statutory changes should be made to secure all this. There are precedents from Northern Ireland Water and from Digital TV for pensioners. **A significant contribution on fuel poverty could be made by a high profile cross-Departmental commitment to a programme aimed at finding customers for the fuel poverty schemes and encouraging them to come forward,** while at the same time targeting those eligible for benefits who are not currently claiming them.
- **The Government should** provide an assessment of the resources and policies needed to meet the 2016 target, and should **draw up a Fuel Poverty Business Plan for the initial years.**

A number of these recommendations and some others have been drawn together in a set of Fuel Poverty Advisory Group (FPAG) proposals for the forthcoming Energy White Paper. These are set out in Appendix 2.

1 Introduction

This report covers:

- Developments in Fuel Poverty
- Targets
- Energy Prices
- Resources
- The Fuel Poverty Programmes
- High Cost Measures
- Information Sharing
- Incomes
- Other Government Departments
- Department of Work and Pensions
- Communities and Local Government
- Department of Health
- Ofgem

Terms of reference and membership of the Group are at Appendix 1.

2 Developments in Fuel Poverty

The numbers in fuel poverty were broadly unchanged between 2003 and 2004 (the latest date for which official statistics are available). The key data are in Table 1 and are taken from the Government UK Fuel Poverty Strategy 4th Annual Progress report, Spring 2006, supplemented with 2006 and 2007 projections.

TABLE 1
FUEL POVERTY IN ENGLAND

	Number of households (m)			
	2003	2004	2006 Projected	2007 Projected
Households in fuel poverty	1.2	1.2	2.5	2.5
Vulnerable households in fuel poverty	1.0	1.0	2.0	2.0
Households in fuel poverty (broader definition)	1.5	1.4	–	–
Vulnerable households in fuel poverty (broader definition)	1.2	1.2	–	–

It will be seen that about 1m vulnerable households were in fuel poverty in 2004, with increases after that as a result of the energy price rises. Domestic energy prices rose in real terms by about 50% between the beginning of 2004 and the end of 2006 and by 35% between 2004 (average) and 2006 (average) (All price changes are given in real terms). Prices have, happily, now started to fall again. There is a lot of uncertainty about prices this year, but average 2007 prices will still be around average 2006 levels, (but with end 2007 prices 15-20% lower than end 2006 prices). The reductions are very welcome, but still not enough to bring prices back to the levels before the price rises of the early 2000s. **2007 prices are likely to still be more than 30% above 2004 levels and more than 20% higher than 1997 levels in real terms.** Details of the gas and electricity price changes are in Table 2.

TABLE 2
REAL INCREASES IN GAS AND ELECTRICITY PRICES 2004-6

	Average 2004 to average 2006	Beginning 2004 to end 2006
Gas	45%	67%
Electricity	29%	41%

The estimated effects of these price changes are in Table 3.

TABLE 3
EFFECT OF PRICE RISES IN ENGLAND

	Changes in number of vulnerable households in fuel poverty in England 2004-6
Effect of price changes	+1.3m
Effect of Income increases	-0.3m
Overall effect	+1.0m

The number of vulnerable households in fuel poverty is thus estimated to have risen by about 1m between 2004 and 2006. In other words, the extent of fuel poverty doubled over this period. In 2007, there is unlikely to be a significant reduction (These estimates take no account of improvements in energy efficiency after 2004 from the fuel poverty programmes and are generally broad brush estimates).

It is clear that the high prices have caused tremendous hardship. This was certainly underlined by a Parliamentary Answer in July 2006 on Fuel Direct. The average fuel direct deduction is about £13 per week for each fuel – or just over £10 per fuel for current consumption (with the remainder for debt). So current consumption is costing £1,000 p.a. – broadly the size of the average household energy bill, but a huge proportion of the income of those on benefit – usually well below £10,000.

Fuel poverty is concentrated in the private sector, with over 80% of those in fuel poverty in the private sector, mostly in owner occupation; and amongst elderly people – half of all households, and considerably more of the vulnerable households, in fuel poverty are pensioner households.

3 Targets

There are, as is well known, statutory targets to eradicate fuel poverty as far as is reasonably practicable amongst vulnerable households by 2010 and all households by 2016 in England.

Targets for the Comprehensive Spending Review 2008–11 are currently under discussion. The PSA framework should recognise both that the elimination of fuel poverty is a high priority, given that it is a statutory target, and that responsibility for action on fuel poverty is cross-Governmental, spanning several Departments. Thus, even though there will be fewer PSA targets, Defra and DTI should both continue to have fuel poverty as one of their PSA targets, and the roles and responsibilities of the other Departments involved – CLG, DWP, DoH, and Treasury – should be clearly defined as part of the PSA framework and of the Comprehensive Spending Review settlements.

FPAG has a clear concern that fuel poverty will be omitted or down-played in the targets, because – whilst it is relevant for a number of Departments – it is not central for any Department. In one sense, this should not matter as there is a binding statutory target. Nevertheless, there is a clear risk of a lower priority for fuel poverty if it is not included in the PSA framework.

Similarly, a new system of monitoring Local Government Performance is being developed – **the Local Government Performance Framework. It is critical that fuel poverty is included in this.** When we asked a number of LA representatives how Central Government could encourage LAs to do more on fuel poverty the answer was “inclusion of fuel poverty in the Performance Framework, nothing less”.

4 Energy Prices

Overall Prices

The reductions in retail prices are welcome. Nevertheless, current prices remain much higher than those of 2003 and 2004. In the current situation, we would make the following points on overall price levels.

- It is extremely important that prices should be as low as possible in the present high price environment. It has been helpful that Ofgem has underlined the importance of companies reducing their retail prices as wholesale prices fall. **However, it does not seem to FPAG that Ofgem has done the work necessary to monitor whether prices are being adequately reduced.** It seems to us that they should monitor company margins through the value chain and certainly that they should assess the average price of gas and electricity being purchased by the supply companies (taking appropriate account of purchases within the same Company Group).

- In the electricity transmission and 1 year gas distribution price control reviews, Ofgem permitted increases in charges that, in our view, were too generous. **The gas distribution price review will result in charges to the supply companies in 2007/8 being as much as 11.5% higher than those of the previous year.** It will be very important in the 5 year gas distribution price control to **secure that there is a better balance between customers and companies and that distribution charges are kept as low as possible.**
- As UK gas production runs down over time, the situation of shortage, as in the last 2 years, could possibly be repeated. Ofgem will want to assess whether there were any lessons, not just for others, but also for Ofgem itself, so as to minimise the risks of a recurrence of high energy price rises, which have been so damaging for low income customers.

Prices for low income customers

Low income customers generally pay higher electricity and gas prices than others – **“the poor pay more”**.

Around 40% of prepayment customers in England were in the 2 lowest income deciles in 2004 (compared with 20% of all customers). Only a little over 5% were in the top 2 deciles. Around a quarter of the fuel poor were prepayment customers for at least one fuel.

In 2006, prepayment customers paid about 16% (or £120), more on average than direct debit customers. This is a very substantial differential indeed. It is a striking increase from the difference of about £75 in 2004 and previous years. A few companies do only charge 2-3% more for electricity prepayment customers in some of their areas than for direct debit. On the other hand, for dual fuel customers, the gap seems to be particularly wide – as much as £150, since very few companies offer prepayment customers dual fuel discounts.

Standard credit customers also have markedly lower incomes than direct debit customers and they pay an average of 10% more.

There have been some helpful developments on prices for low income customers, but in many ways there has been little progress.

- **Some of the supply companies are offering valuable social tariffs.** The recent introduction by British Gas of a tariff equalising prepayment and direct debit tariffs for 750,000 vulnerable customers is welcome and some of the other companies have similar or greater discounts.

- **On the other hand there are signs that the reductions in prices in the current round of price cuts will be focused heavily on credit customers.** The companies are seeking to demonstrate that they are the cheapest supplier – usually with reference to the dual fuel direct debit tariff. In the recent British Gas price reductions, the fall was only 11% for prepayment customers (for those not on the special tariff) compared with about 16% for credit customers. This suggests that competition might be less effective for prepayment than for direct debit customers.
- **There has been little progress on low cost prepayment meters and none on direct debit arrangements for low income customers, Post Office deductions or Fuel Direct.**

For the future:

- **Ofgem is carrying out work to monitor social tariffs from the supply companies. This is very welcome** as it is important that companies with good social tariffs/Corporate Social Responsibility (CSR) work on fuel poverty get credit for this, and that the lack of social tariffs/low level of work on fuel poverty from other companies is transparent.
- **It will also be helpful for Ofgem to monitor closely the movements of the relative prepayment, standard credit and direct debit prices,** and the effectiveness of competition for these different customer segments.
- There remains the **risk of a significant increase in prepayment charges by National Grid** once Ofgem's Competition Enquiry into gas meters is complete. **It will be essential for Ofgem to ensure that there are no such increases.**
- **More broadly, all the supply companies should, in FPAG's view, be offering social tariffs, meeting defined criteria, to vulnerable customers** – in particular, they should offer to a specified number of vulnerable customers a tariff at least as low as the best tariff available to their customers generally. We hope that this will be done by self-regulation as this would allow more flexibility e.g. on customer eligibility for the social tariff. However, **the Government should take powers in the Energy Bill, following the White Paper, to make it obligatory to offer such a tariff** – in the event that the companies do not do so voluntarily. Over time it will be helpful to target social tariffs as well as possible on those for whom energy efficiency and similar measures would be extremely expensive or impractical. This is discussed further in Section 5.

- Social tariffs will make a useful contribution to fuel poverty. However, it is still critical to drive forward for lower cost payment methods for low income customers – as **lower prices will have a better chance of being sustainable if they are based on lower costs rather than special price arrangements.** In particular, we would like greater impetus from Ofgem and Government to secure the introduction of low cost prepayment meters. In addition, Post Office budgeting arrangements are well worth pursuing and the Government should be encouraging such arrangements for the successor to the Post Office Card Account.

With the new technologies now available it must be possible to find a way of reducing the cost of prepayment methods for low income customers either by prepayment or through banking/Post Office arrangements. **This cuts across Government Departments and Ofgem, and we would like to see Treasury take the lead with a determination to find a solution on low cost payment methods.**

This is part of a wider issue of the “poverty premium” – additional money which low income households have to pay to secure the same goods and services as other households. This has again been highlighted recently by the End Child Poverty campaign. Progress on gas and electricity costs – which is feasible – would help to reduce the size of this problem.

5 Resources

The Fuel Poverty Programmes are now substantial. In 2007/8 a little under £650m is likely to be spent, made up broadly as follows:

TABLE 4
FUEL POVERTY PROGRAMMES 2007/8

	£m
Warm Front	350
Energy Efficiency Commitment – Priority Group	190
Decent Homes*	100
TOTAL	640

* The Decent Homes figure is a broad-brush estimate

FPAG has now, in a more comprehensive way, calculated the resources required to reach the target of eradicating fuel poverty amongst all households in England by 2016. The background work was carried out by DTI and Defra Officials, but the estimates of the resources required, based on this work, are FPAG's.

The work has concluded that a programme of about £1bn p.a. is needed from 2008 to 2016. This would be very largely capital measures to improve energy efficiency and heating, but would include special measures to increase incomes and to reduce prices for a group of customers.

The key capital measures are in Table 5.

TABLE 5
MEASURES FOR FUEL POVERTY

Measure	Cost £m
Mainstream Insulation	260
Central Heating	440
Non gas areas [gas central heating or renewables]	900
Other [gas CH replacement, solid walls ins., solar thermal]	3,900
TOTAL	5,500

These are purely the costs of the measures themselves. When account is taken of administration and marketing costs, the impossibility of targeting the measures precisely on the fuel poor, measures for non vulnerable fuel poor households and expenditure since 2005, the estimated total cost is £10bn.

Given that a number of the measures are expensive, it will be more sensible to remove fuel poverty amongst a number of households by special income or price measures – benefit take-up, price discounts via social tariffs and lower relative prepayment prices (as discussed in Sections 4 (Energy Prices) and 9 (Incomes)). This would reduce the need for some high cost measures and bring the overall cost of the programmes down by £1bn to £9bn or about £1bn p.a. in real terms to 2016. Details of the calculations of required resources are in Appendix 3.

This is a sizeable programme but, given current levels of expenditure and the prospects for increased EEC resources, it does not appear unrealistic. Specifically, if Warm Front is maintained at the 2007/8 level of £350m and if EEC for the Priority Group is doubled, i.e. increased by £190m (with EEC Priority Group measures more focused on fuel poverty) – **then total expenditure would be around £830m. This is below, but not too far below, the £1bn p.a. required. Clearly the decisions about the various fuel poverty programmes in the coming months will be critical** and this is discussed in Section 6.

Sources of Extra Resources

Three potential sources of funding are worth specifically mentioning here:

- EUETS allowances, especially for the sectors not exposed to competition from outside the EU, should be auctioned as quickly as possible over time with the proceeds recycled into fuel poverty programmes. The Environmental Audit Committee has recently floated the possibility of windfall profits tax on the gains made as a result of EUETS.
- There should be a small change in Ofgem's duties to fill the gap in Ofgem's ability to act in customers' interests – exposed by Ofgem's inability to secure for customers a share of the gains that National Grid made on the sale of some of its distribution company subsidiaries. With such a change, Ofgem would have the power properly to protect customers in future and to secure benefits for low income and other customers.
- Winter Fuel Payments currently cost £2bn p.a. We appreciate that these are highly valued by those who receive them, but they are not at all well targeted – paid to everyone irrespective of income, and untaxed. A part of the expenditure could be better targeted and used to increase further the fuel poverty programmes.

6 The Fuel Poverty Programmes

Warm Front – Comprehensive Spending Review

Decisions about the Comprehensive Spending Review and about Warm Front from 2008 to 2011 will be made this summer. Warm Front expenditure is expected to be around £350m in 2007/8.

This consists of £250m from the last Comprehensive Spending Review plus a welcome £100m extra announced in the 2005 Pre-Budget Review. **It seems that there is a risk that the level for Warm Front will be set significantly lower for the 2008-11 period with a cut from 2007/8 levels.** The shortfall – compared with requirements – for the next 3 years would then be so great as to make the 2016 target, let alone the 2010 target, virtually unattainable.

Warm Front is an extremely good programme. The need for top-up contributions in a significant number of cases has caused considerable concern to customers and their advisors. It is unnecessarily damaging the reputation of the programme and the Government now needs to ensure that a resolution is found rapidly.

Energy Efficiency Commitment (EEC)

Similarly it will be essential – given the resource requirements – that EEC should make a significantly increased contribution to tackling fuel poverty, as well as to its main aim of reducing carbon emissions. **If EEC is doubled, as seems likely, then 50% of the energy savings should, in FPAG's view, continue to go to the Priority Group (customers on benefit).**

We acknowledge that there is a risk that it would be very challenging and expensive to meet such a Priority Group (PG) target. This should not be overstated especially as the costs of EEC (and its predecessor schemes) have without exception turned out to be materially lower than estimated at the outset by the suppliers. Nevertheless, because of the risk, FPAG supports one of the proposals which have been aired by Defra for providing some flexibility in meeting the PG target. We would underline, however, that this flexibility, on a limited scale, seems to us to be a sensible way of enabling a high Priority Group share of EEC to be maintained without excessive risk – it should not be a 'bolt-on' to a low PG share.

Some are proposing that the PG share should be no greater than the PG population of all households – about 35%. This would be highly regressive. Expenditure on EEC by the PG – low income customers – would be doubled, but the benefits they receive from EEC would increase by only 40%. This regressive increase in EEC would follow the large energy price rises – which themselves have had a disproportionate impact on low income households, who spend a high proportion of their income on energy, and especially on those who face high energy consumption because of inefficient housing and heating.

Looking further ahead, it is possible that after 2011 energy suppliers might be obliged to secure reductions in emissions from their household customers. This might partly or wholly replace EEC. It will be important to assess the impact on low income customers and to secure appropriate benefits for them from any new scheme. It might at this time be sensible to separate out the carbon reduction and fuel poverty obligations, as long as this does not result in any relative reduction in benefits going to fuel poor or low income households.

Decent Homes – Social Sector

The Decent Homes Standard has improved the energy efficiency of homes in the social sector, especially as thermal comfort (i.e. energy efficiency) was the most important cause of failing to reach the Standard. In addition, according to Communities and Local Government research, many social landlords have gone, or are intending to go, beyond the energy efficiency levels in the Decent Homes Standard.

Nevertheless, in part because the level of energy efficiency is low in the Decent Homes Standard, as many as 46% of the fuel poor in Social Housing in 2004 lived in 'Decent Homes'. This is very high (although the incidence of fuel poverty is twice as high in homes that are not decent). In order to eradicate fuel poverty in Social Housing, the energy efficiency levels clearly need to be raised above those in the Decent Homes Standard. There are two possible kinds of mechanisms:

- **The Decent Homes Standard could be raised directly**
- **There could be a duty on landlords to provide affordable energy (or a specified SAP rating) in their dwellings by 2016 and/or a provision for fair rents to reflect the SAP ratings** and/or from some future date (to allow for time for improvements) housing benefits could only be paid for properties which meet specified SAP ratings.

The second of these alternatives would also help in the private rented sector where 15% of the fuel poor lived in 2004.

Other Programmes

Lack of access to gas is an important source of fuel poverty and extension of the gas network is thus important for reducing fuel poverty:

- In 2004, 32% of the fuel poor in England, compared with 13% of all households, did not have gas [English House Condition Survey].
- 14% of those without gas in England were fuel poor in 2004 compared with about 5% of those with gas – a striking difference.
- As many as 24% of those without central heating were in fuel poverty.
- There are about 4,600 clusters of communities of 50 homes or more within 2kms of the gas network, but not connected to it.
- It is estimated that there were over 100,000 households in fuel poverty in these clusters in 2003, and this is likely to have doubled as a result of the energy price increases.

It seems likely that Ofgem will provide measures in the Gas Distribution Price Control Review to facilitate gas network extensions in a substantive way. This would be very welcome.

In the 2006 Pre-Budget Review it was announced that £7.5m of additional resources (£6.3m in England) would be available for area based approaches to tackling fuel poverty. This is very helpful, although the provision of such funds for a single year at short notice may well result in some inefficiencies.

There have been a number of area based intensive programmes over several years and these can be an effective way of reaching households who would not respond to other programmes, of providing a number of services together (energy efficiency, benefits and sometimes additional help) and of carrying out cost effective work concentrated in local areas. **It will be helpful for such area based approaches to be further encouraged beyond the one year Pre-Budget Review Programme.**

7 High Cost Measures

As will be seen from the table in Section 4, many of the measures needed will be more expensive than cavity and loft insulation, which have been the key measures to date. In some cases these higher cost measures have not been widely used, at least in the UK – heat pumps, solar thermal, solid wall insulation. For others, the measures involve fairly new renewable technology.

This raises three issues. Firstly, **programmes and arrangements need to be developed, probably within existing schemes, for installing measures** such as small scale renewables and solid wall insulation in the homes of low income households, where appropriate. A part of the Low Carbon Buildings Programme should be focused on low income households.

Secondly, **it will be important to focus the higher cost measures more intensively on those in fuel poverty.** This also applies to social tariffs. This is not straightforward as fuel poverty depends upon a combination of incomes and housing/heating. Table 6 below suggests that one possibility, as a starting point, might be to focus on households on benefit in very inefficient homes (SAP rating under 30 or 40). For example 41% of households in the EEC Priority Group (i.e. on benefit) with a SAP under 40 are in fuel poverty and they also constitute 41% of the fuel poor.

TABLE 6
TARGET GROUPS

	Households	Number in Fuel Poverty	% of category in fuel poverty	% of all fuel poor
All households with a SAP under 30	1,765,013	507,125	29%	41%
Households in PG with a SAP rating under 30	618,263	346,285	56%	28%
Households in PG with a SAP rating under 40	1,222,500	504,115	41%	41%
Households in PG with a SAP rating under 50	2,539,082	695,518	27%	56%
Households in PG with a SAP rating under 40 plus all pensioner ¹ households	6,912,998	813,815	12%	66%
All with a SAP rating under 40 plus all in PG plus all other pensioner households	11,844,748	1,187,227	10%	96%
All with a SAP rating under 40 plus all pensioner households	8,995,451	933,009	10%	75%
SAP rating under 40 plus all others on pension credit ²	4,946,774	777,347	16%	63%
Households with a SAP rating under 40 who are receiving pension credit	165,661	63,827	39%	5%

Source: EHCS 2004

- 1 Pensioner households are households containing a single person over 60 or a couple over 60, as consistent with the EHCS household composition variable.
- 2 Data on Pension Credit recipients should be treated with some caution as there is undercounting of this group on the EHCS dataset.

Work is still in hand to further consider possible target groups and examine the practicalities. LAs and others with local knowledge would have a key role in identifying areas with low incomes and energy inefficient housing. The work by the Centre for Sustainable Energy in highlighting local areas of fuel poverty intensity will also be important.

Thirdly, **if significant sums – £5,000 – £10,000 or more – have to be spent on a single owner occupied dwelling, should a contribution be sought from the householder** – through an equity release scheme, through an interest free scheme similar to student loans or a similar scheme?

There are arguments on both sides. On the one hand the house will often have considerable capital value and, in the case of elderly people, their families will often benefit from the measures and any consequent capital appreciation. On the other hand, the value of the homes of those in fuel poverty is, as expected, below the average value (around £130,000 in 2004 compared to around £165,000 for the non-fuel poor). More importantly, the requirement for a contribution would be a significant disincentive, especially for elderly people, for measures that would both reduce fuel poverty and save carbon. FPAG is working further on these issues and **it will certainly be helpful if faster progress can now be made on low cost equity release schemes for fairly small sums. This ties in well with the Chancellor's encouragement to banks and building societies to develop mortgages for investments in energy efficiency, referred to in the Budget.**

8 Information Sharing

The costs of finding customers eligible for the fuel poverty schemes are higher than they need to be because of the obstacles to sharing data especially in relation to people on benefits. A pilot was carried out in winter 2006/7, with the Pension Service of the DWP contacting 100,000 customers on Pension Credit to tell them about benefits, the fuel poverty programmes and other help available from the energy companies. This was a fruitful cooperative effort amongst a number of organisations. It will be important to build on this to enable those eligible for the fuel poverty programmes to be targeted more cost effectively. There are potential Data Protection issues, but these can be resolved, obviously with a number of safeguards and arrangements, which are necessary. Specifically:

- **There should be legislative provisions enabling the DWP and HM Revenue and Customs to pass on contact details of benefit recipients to energy efficiency and energy companies** for the purpose of putting them automatically on a favourable tariff and offering energy efficiency measures and other help.

- **LAs cannot always use the Council Tax Benefit address list in their own authority to target households about fuel poverty measures.** A Statutory Instrument under the Local Government Finance Act would resolve this. Again there is a precedent relating to LA access to information on void properties.
- Under the EU Buildings Directive, the energy efficiency of homes will need to be assessed prior to a sale or change of tenancy. **The resulting Energy Performance Certificate and underlying energy data for individual dwellings should be available at least to LAs** and preferably to energy efficiency and energy companies. The case for doing this is very strong given that the data will be in the public domain via the information provided by estate agents.

The supply of data along the lines proposed above would be of great help to LAs, eaga and the energy companies in targeting the fuel poverty programmes and other help available to low income groups – especially for those in fuel poverty in the private sector and pensioner households, who are often harder to reach.

The challenge of finding the customers in fuel poverty who would benefit from the various schemes is again a cross-Government one. Some progress is being made, but **it would be of great value to have a high profile cross-Departmental commitment to a programme of finding and referring customers to the schemes – while at the same time seeking to improve the take-up of benefits** by those who are entitled to them (see Section 9 below).

9 Incomes

Low incomes are clearly an important cause of fuel poverty. **It is particularly important from a fuel poverty perspective that households claim the benefits to which they are entitled.** There is a double gain – the benefits are a passport to the fuel poverty programmes and they obviously increase income.

About 25% of the fuel poor are not on the relevant means tested benefits or tax credits or disability benefits. It is likely that a significant portion of these would be entitled to benefits.

A drive to increase benefit take-up will thus be needed alongside enhanced fuel poverty programmes, as noted in Section 4. Benefit checks offered as part of Warm Front could be extended, the energy suppliers could be permitted to offer benefit entitlement checks to a degree as part of EEC (under a binding voluntary agreement if current legislation does not permit this), and development of the cooperation between the DWP and the energy/energy efficiency companies could have a useful impact on benefit take-up.

10 Other Government Departments

The following sections summarise the recommendations for specific Government Departments and Ofgem – some of which have been covered within the previous sections.

11 Department of Work and Pensions (DWP)

Cooperation between the DWP and the energy/energy efficiency companies has continued to improve – with all round recognition of the benefit of mutual help in achieving objectives.

Current outstanding issues are:

- Desirability of building on the pilot mail out to Pension Credit customers.
- **Automatic data sharing**, building on the N. Ireland and Digital TV experience.
- In the interim, provision of information on new Pension Credit customers to Warm Front.
- The seamless cross referral service between DWP and eaga/the energy companies works with the Pension Service and the Disability and Carers Service. It would be good to extend this to customers of working age via JobCentreplus
- Benefits health checks are sometimes (not invariably) carried out by the companies only if customers are currently not in receipt of any of the Warm Front/EEC passport benefits – so in these cases they will miss customers who receive some benefits, but not all their entitlement.
- **Arrangements for the successor to the Post Office Card Account to include direct payment arrangements** as a supplement – or possibly ultimately an alternative – to Fuel Direct
- Link AgePlus [seamless services for the elderly] to continue to include fuel poverty programmes as a priority.
- DWP to support Defra in securing a role for fuel poverty in new Local Government Performance Framework and then in Local Area Agreements.

12 Communities and Local Government (CLG)

There is more recognition now in CLG of the common issues and in particular of the need to tackle the energy efficiency of the existing stock, including the homes of low income households, but as last year, difficult issues remain:

- **Fuel Poverty Targets should be included in the new LA Performance Framework.** This is critical. Subsequently, Local Area Agreements should give reasonable priority to fuel poverty.
- CLG recognise that some households will remain in fuel poverty even if their dwelling meets the Decent Homes Standard and the position has been made worse by the recent changes to the definition of Decent Homes. **Either the Decent Homes Standard should be changed, or landlords should have a duty to achieve certain SAP levels by 2016,** and/or fair rents should reflect SAP ratings.
- **The Energy Performance Certificates and the energy data behind them for individual dwellings should be made accessible to LAs** and the energy/energy efficiency companies.
- **LAs should be able to access for fuel poverty purposes, lists of Council Tax Benefit recipients in their own LA** – this will require a Statutory Instrument.
- The new legislation on the Housing Health and Safety Rating System (HHSRS) and on Houses in Multiple Occupation should be useful on fuel poverty, especially in the private rented sector. Resources for LAs for implementing the legislation will be important for its effectiveness. We look forward to the first results from monitoring the scheme. It is important that the provisions relating to the refusal of Warm Front/EEC and HHSRS should be used. This will be monitored by the energy/energy efficiency companies as well as by CLG.

13 Department of Health

The position is similar to last year – there is more engagement, there is still a huge amount to do, best practice still needs to be spread, and the challenges facing the Health Service and the process of re-organisation have not helped. The main issues are:

- **Strong message needed from the Centre that referrals from the front line to the fuel poverty programmes are important and worthwhile.** Amongst possible channels are:
 - Meeting between the Minister and Regional Public Health Directors
 - Competencies of Community Matrons
 - Common Assessment Procedure

- Cooperation on Helplines next winter. Specifically, it would be useful if Government Departments led by the Department of Health worked closely together on winter messaging and helpline provision. This could be achieved by making funding available from the Department of Health to enable either eaga or the Energy Suppliers' Helpline to deal with the health-related queries, which were previously covered by the Keep Warm, Keep Well line.
- **The energy and the energy efficiency industry and the Department of Health should work together in other areas to secure priority for fuel poverty and referral to the programmes.** Specifically, there has been significant progress on Local Area Agreements and the Link Age Plus pilot as a result of joint approaches by health and energy people. It will be very important that there is joint working on the Local Government Performance Framework, on future Local Area Agreements and on Regional Strategies. Again, it will be helpful if a member of staff in the Department of Health with fuel poverty responsibility could help in pursuing this.
- It will be useful to consider how to engage with the LA Home Care Services.

In terms of the energy/energy efficiency companies:

- It will be important to work on the language so that "health language" is used.
- More could be done to provide a seamless service when customers contact the energy/energy efficiency companies.

14 Ofgem

- **Ensure that prices fall as quickly as possible**, by monitoring margins and at the very minimum monitoring the average prices paid by the supply companies for gas and electricity purchases.
- **Assess the effectiveness of competition for different customer segments – prepayment, standard credit and direct debit – especially in the light of the striking recent increases in the gap between prices for prepayment and direct debit customers.**
- Ensure that customers' interests are adequately protected in the Gas Distribution Price Control.
- Carry out an assessment of the distribution of the gains from the energy price increases.
- **Drive for low cost prepayment meters.**

- **Ensure gas prepayment charges by National Grid and the gas distribution companies are not increased.**
- Contribute proactively to the consideration of social tariffs.
- **Complete the work on social tariffs and CSR activities by individual supply companies.**
- **Carry through into the final decisions on the Gas Distribution Price Control the positive approach to gas network extensions set out in the Consultation Papers.**
- Continue to play an active role in the development of EEC and especially provisions for the Priority Group.
- Support the small change in Ofgem duties to fill the gap in its ability to protect customers, exposed by the National Grid sale of its distribution subsidiaries.

15 Conclusions

The Energy Review was disappointing. There are signs now that the Government is beginning to face up to the challenges of the fuel poverty targets in a cross-cutting way, although we do not yet know what the concrete results of this will be. The forthcoming Energy White Paper will be the first of three important milestones for fuel poverty this year – to be followed by the decisions on EEC and the level of Warm Front funding from 2008.

Five of the major fuel poverty challenges are:

- **Resources** – A high level of resources will be needed in a difficult spending situation. Creativity in tapping additional resources will help and we have made some proposals in this report.
- **Measures** – In order to “fuel poverty proof” homes in a world of high energy prices, some measures that are less well developed – at any rate in the UK – will be needed and delivery mechanisms will have to be worked out for these measures.
- **Prices** – It is essential that Ofgem ensures that prices are as low as possible and that sustained higher margins do not result from the higher price levels – both in general and for prepayment customers in particular.
- **Improved Benefit Take-up** – This is critical to the achievement of the fuel poverty targets.

- **Cross Government** – A Government Minister at a recent fuel poverty event said that it is necessary to be more creative as the fuel poverty problem cannot just be solved by throwing money at it. We agree. Indeed our recommendations include many that would not cost money, but would require a greater degree of cooperation across Government.

Above all vision and determination will be needed along with creativity. For example, the Government should, in our view, commit to secure low cost payment methods for low income customers – which would be possible with current technology, whether through prepayment or through banking arrangements. Again, it should commit to use all its frontline contacts with vulnerable customers and all the information it has available, to find those who would benefit from the fuel poverty programmes and other support with their fuel bills.

These are major challenges, but they are well worth confronting since a reduction in and the removal of fuel poverty will help in achieving a wide range of Government objectives.

Appendix 1

Fuel Poverty Advisory Group Members and Terms of Reference

Name	Title	Organisation
Peter Lehmann	Chair	
John Chesshire	Vice Chair	Chair – Energy Efficiency Partnership for Homes
George Mayhew	Director of Corporate Affairs	National Grid
Jill Harrison	Director of Energy Efficiency and Social Responsibility	Centrica Plc
Nick Horler	Managing Director Retail	Powergen Retail Ltd
William Gillis	Chief Executive Officer	National Energy Action
David Threlfall	Chief Executive Officer Retail	RWE Npower
Gill Owen	Chair	Public Utilities Access Forum
Sarah Webb	Director of Policy and Practice	Chartered Institute of Housing
Dr Noel Olsen	Public Health Physician Trustee	National Heart Forum
Jerry Robson	Chairman	Association for the Conservation of Energy
Mervyn Kohler	Head of Public Affairs	Help the Aged
Adam Scorer	Director of Policy and Research	Energywatch
David Pickles	Local Government Association	Energy Agency Manager
John Clough	Chief Executive	EAGA Partnership Ltd
Teresa Perchard	Director of Policy	Citizens Advice
Eva Eisenschimmel	Chief Operating Officer	EDF Energy

Terms of Reference

The Fuel Poverty Advisory Group is an Advisory Non-Departmental Public Body sponsored by Defra/DTI. Its primary task is to report on the progress of delivery of the Government's Fuel Poverty Strategy and to propose and implement improvements to regional or local mechanisms for its delivery.

The role of the Group is:

- To consider and report on the effectiveness of current policies in delivering reductions in fuel poverty and the case for greater co-ordination.
- To identify barriers to the delivery of reductions in fuel poverty and to the development of effective partnerships, and propose solutions.
- To consider and report on any additional policies needed to deliver the Government's targets.
- To enthuse, and encourage, key players to tackle fuel poverty
- To consider and report on the results of the work to monitor fuel poverty.

As will be seen, the Group consists of a wide range of organisations with different views and this is one of its strengths. On many of the issues there is a very large measure of agreement. On others, especially EEC and energy prices, there are more differences and the views in this report do not always therefore reflect the views of individual members.

Appendix 2

Proposals on Fuel Poverty for Energy White Paper Legislation

Separation of carbon reduction and fuel poverty obligations in EEC [or its successor] from 2011.

Enabling clause for social tariffs, [and amendments to current clause relating to distribution costs], extending the narrow provision in the Utility Act.

Small change in Ofgem's duties to fill gap in Ofgem ability to protect customers – exposed by Ofgem's inability to secure for customers some of the gains which National Grid made on the sale of some of its subsidiaries.

Provision enabling DWP and Inland Revenue to pass on contact details of benefit recipients to energy efficiency and energy companies for the purpose of providing offers to such customers [energy efficiency, price discounts etc]. This builds on Energy Review para. 2.106 and there is a precedent with the water company in Northern Ireland.

Duty on landlords [social and private] to provide affordable energy [or specified minimum SAP ratings] in their dwellings by 2016 – and/or provision for fair rents to reflect SAP ratings.

Overall fuel poverty measures

Renewed commitment to adequate and affordable heating as one of the 4 objectives of energy policy and to the fuel poverty targets.

Assessment of resources and policies needed to meet the targets.

PSA targets or sub-target outcomes on fuel poverty which are cross-cutting across the relevant Depts.

Assessment of distribution of the gains from energy price increases and of profitability along the supply chain [given the companies' view that retail margins are very poor].

Formal guidance to Ofgem [amendment to Environmental and Social Guidance] to take all steps feasible i) to secure that the overall cost to serve of electricity prepayment meters are virtually the same as those of direct debit within 2 years and to minimise the excess costs to serve of gas prepayment meters and ii) to contribute in appropriate ways to financial inclusion.

Work with Ofgem to ensure that prices are no higher than necessary and that they fall appropriately when wholesale prices fall.

Auctioning of EUETS Allowances especially in the non-traded sector as quickly as possible with proceeds recycled into fuel poverty programmes.

Measures foreshadowed in the Energy Review

Measures to stimulate area based approached building on Warm Zones [2.108] – the Pre-Budget Report was helpful on this.

More extensive benefit entitlement checks – will be helped by area approaches. Such checks to be provided for Warm Front customers who are receiving some benefits but possibly not all of those to which they are entitled. [2.109]

Stimulation of renewables for elderly and those in cold homes in part via Low Carbon Buildings Programme. [2.111]

Other Specific Measures

Higher thermal comfort standards in the Decent Homes Standard, so that homes are only counted as Decent if their SAP ratings are such that the risk of fuel poverty is extremely low.

Continue to encourage Ofgem to support gas network extension – this is currently moving in the right direction.

Fuel Poverty targets to be included in the new Local Government Performance Framework – this is very important.

Statutory Instrument under the 1992 Local Government Finance Act to enable Councils to use their Council Tax Benefit address lists to target households about fuel poverty [and carbon reduction] measures. [Modelled on a previous Statutory Instrument which gave access to data on void properties]. Again this builds on para. 2.106 of the Energy Review.

Effective use of the HHSRS and of the provisions on Houses in Multiple Occupation to deal with cold homes.

Review of the decision about LA access to data from the Energy Performance Reports on individual dwellings.

Department of Health to secure that their frontline staff refer customers to the fuel poverty programmes – to help the customers and contribute to Health objectives.

Appendix 3

Resources

Cost of measures £5.5bn with 20% uplift for non vulnerable, 20% admin and marketing costs, and 60% targeting success on the fuel poor is £13.2bn from 2005. [$£5.5bn/0.6 \times 1.2 \times 1.2$].

60% targeting rather than 55% as in the past is used because the target group is bigger as it includes the non vulnerable fuel poor.

Numbers of non vulnerable fuel poor were 20% of the vulnerable fuel poor in 2004

Expenditure 2005 to 2008 is £1.7bn so, from 2008, expenditure required is £11.5bn [$£13.2bn$ minus $£1.7bn$].

If we assume that for most but not all of the expensive measures [solid wall, replacement gas central heating, solar thermal but not renewables in off gas communities] it is possible to take special measure to improve targeting to 70% the total expenditure required from 2008 becomes £10bn rather than £11.5bn [$£3.9bn/0.7$ plus $£1.6bn/0.6 \times 1.2$ admin $\times 1.2$ non vulnerable minus $£1.7bn$ expenditure to 2008].

Benefit take up at one third of its potential and price discounts of £100,000 p.a. for 150,000 customers would reduce fuel poverty by over 10% and hence would reduce the required capital programme from £10bn to under £9bn. The costs of these measures might be £20m p.a. although this would need to continue each year until further measures were installed. Lower relative prices could be a partial substitute for special price discounts.

The calculations here are:

- Improved take up reduces the numbers needing fuel poverty measures by 5%, one third of the total potential.
- £100 p.a. price discount for 150,000 customers would on a 70% targeting basis reduce the number of fuel poor customers needing measures by 100,000. This is 7.5% of the 1.3m needing measures. There would clearly be challenges and costs in identifying the customers for whom such measures would be appropriate.
- Thus the income and price measures reduce the numbers needing measures by about 12% – hence reducing the size of the capital programme by about £1.2bn from £10bn to just under £9bn.
- Expenditure of perhaps £50m p.a. on income and price measures could continue to be needed after 2016 depending on progress with capital measures.

- On other assumptions, energy prices are taken to be broadly unchanged between 2006 and 2010 and then again unchanged in real terms between 2010 and 2016, and it is understood that this is broadly in line with DTI thinking. Under current programmes relevant Decent Homes expenditure is taken to be £100m p.a. as discussed in Appendix 2 of the FPAG Annual Report, 2005.

