

Fuel Poverty Advisory Group
(for England)

First Annual Report

2002/3

Contents

	Key Recommendations	2
1	Introduction	4
2	Progress with Fuel Poverty	4
3	Public service agreements and current concerns	5
4	Existing programmes	6
	A) INTRODUCTION	6
	B) COMPREHENSIVE PACKAGE	6
	C) THE SCOPE OF THE PROGRAMMES	7
	D) EEC	8
	E) SOCIAL HOUSING	9
5	Hard to heat homes	10
6	Obstacles and opportunities	11
	A) SKILLS SHORTAGES	11
	B) PRE-PAYMENT METERS	11
	C) OPPORTUNITIES/OTHER GOVERNMENT DEPARTMENTS	12
	i) Benefit take up	12
	ii) Housing and Neighbourhood Renewal	13
	iii) Department of Health	13
7	Resources	14
8	Energy Policy White Paper	15
9	Conclusions	15
	Appendix A	16
	FPAG TERMS OF REFERENCE	16
	FPAG MEMBERS	17
	Appendix B	18
	WARM FRONT	18
	ENERGY SUPPLIERS INITIATIVES	18
	Appendix C	20
	COST OF ERADICATING FUEL POVERTY	20
	NUMBERS LIKELY TO BE IN FUEL POVERTY IN 2010 - PRESENT POLICIES	21
	Annex	23

Key recommendations

Of the points we set out in this Report, we would highlight nine key recommendations for Government.

- It is recommended that the Government should on an annual basis systematically review progress towards the targets and the adequacy of existing policies for meeting the targets.
- Current programmes, even if made more cost-effective, and if continued to 2010 and beyond, will not be on their own be adequate to meet the Government's 2010 targets. There are a lot of uncertainties about the costs of meeting the targets, and its statutory 2016 targets. It is the Group's judgement - subject to considerable uncertainty - that an increase in current programmes of at least 50% is needed. We are concerned that there is currently not enough Government drive to move the programmes forward and that the PSA targets for DTI and Defra on Fuel Poverty are rather weak.
- It will be important and cost effective to carry out a package of measures at one time, in a house, sufficient to remove households from fuel poverty. In order to achieve this, it will be necessary to secure better integration of the different fuel poverty programmes, by making some changes to existing schemes, and by encouraging further integration at local levels. This will be important to help to raise the proportion of those who receive help under the current poverty schemes, who are removed from fuel poverty - which is at present disturbingly low. It is very important that long notice - much more than in the past - should be given of changes to the schemes, so that industry can make the necessary preparations.
- It is essential that the thermal comfort provisions of the Decent Homes Standards for social landlords should be vigorously implemented. The Standards will also need to be carefully monitored to assess whether some households in Decent Standard homes remain in Fuel Poverty.
- New or expanded programmes are needed for hard to heat homes, especially those without cavity walls and those currently without access to mains gas. Where there is mains gas, or a reasonable possibility of access to it, then efficient gas boiler/insulation combinations are clearly the most effective solution. It is thus important that pilot extensions to the gas networks are carried out. For other situations, rapid progressing of the planned fuel poverty renewable pilots will be helpful.
- More use should be made of the Government fuel poverty schemes (Warm Front, EEC, LA programmes) to encourage installers of gas equipment to participate in training programmes in order to overcome skills shortages.

- It is important that the cost of pre-payment meters should be reduced. The Group has asked Ofgem to give priority to this, and work is in hand on it. If the Social and Environmental guidelines are revised, then it will be worth considering whether guidance on this point needs to be, and can be strengthened, or whether work is proceeding satisfactorily under current duties.
- DTI/Defra should proactively seek to work with other Government departments where there are potential synergies between their objectives and the fuel poverty targets. The Group has identified three departments/areas in particular - work with the Department of Work and Pensions to encourage take-up of benefits, work with the Office of the Deputy Prime Minister on a number of aspects of housing and of policy integration, especially in the context of Neighbourhood Renewal, and work with the Department of Health and health professionals.
- Energy policy should take account of fuel poverty and the White Paper should reiterate the Government's commitment to the fuel poverty targets. The Group supports the PIU proposal for a step change in energy efficiency and - given a number of other policy measures - believes that fuel poverty considerations need not be an obstacle to giving preference to environmental objectives in energy policy.

1 Introduction

The Fuel Poverty Advisory Group was set up to advise the Government on the delivery of its target of eradicating fuel poverty. The Group covers England. It has a range of representatives from bodies in the energy sector, local government, the health sector and NGOs. The focus of the group is very much on delivery - what has to be done in practice to remove fuel poverty. The Group's terms of reference and membership are in Appendix A.

There is a broad consensus between the members of the Group about the points in this note, although they do not precisely reflect the views of all the organisations represented.

There are three very broad strands to our work programme so far - existing programmes, gaps in provision, obstacles and opportunities. We will next year look at the more difficult areas still - e.g. the private rented sector, and under-occupation.

2 Progress with fuel poverty

In the Government's UK Fuel Poverty Strategy November 2001, it was estimated that in England in 2000 there were about 2.3m vulnerable households in fuel poverty (using the definition of income including Housing Benefits) and 3.2m using the alternative definition. Since then, further progress has been made. DTI estimates that as a result of the changes in the level of benefits/tax credits, and in fuel prices, there has been a further reduction of about 0.5m. For 2002, the estimates of vulnerable households in fuel poverty are thus about 1.9m and 2.7m.

These numbers take no account of energy efficiency programmes since (1998) which will result in a further reduction.

This is encouraging but for the reasons described below a great deal still remains to be done.

3 Public service agreements and current concerns

The Public Service Agreements for 2003-2006, published in July 2002, contain the following PSAs for Defra and DTI relating to fuel poverty:

- Defra - reduce fuel poverty among vulnerable households by improving the energy efficiency of 600,000 homes between 2001-2004.
- DTI - ensure the UK ranks in the top three most competitive energy markets in the EU and G7 in each year, whilst on course to maintain energy security, to achieve fuel poverty objectives; and (joint target with Defra) to improve the environment and the sustainable use of natural resources.

The Group is concerned that the fuel poverty targets do not appear to have a high priority. The Defra target is extremely weak, focused solely on the short run implementation of Warm Front. The DTI fuel poverty target, while broader, is one of a number of subsidiary objectives. When the next round of PSA targets are set, these should be milestones towards the achievement of the 2010 and 2016 final poverty targets.

As noted in Section 6c below, PSAs for other departments will help, but it is of concern to the group that there seems to be little focus on fuel poverty targets and that the Departmental responsibility for the fuel poverty target is not clear. DTI appears in the PSA targets almost by default to have the main responsibility. **Given that more resources are likely to be needed, the lack of priority and clarity about the fuel poverty targets in the context of PSAs is troublesome.**

These concerns are underlined by the apparent contrast between Government's clear commitment to the Fuel Poverty Targets and the level of priority and drive on fuel poverty in practice. In the Department of Work and Pensions recent Annual Report on Poverty "Opportunity for All" (September 2002) it is said, "Tackling Fuel Poverty across the United Kingdom is one of the Government's key priorities" (paragraph 87). It is also clear a great deal of progress is being made on benefit/tax credit levels and that there is a lot of activity generally in deprived neighbourhoods. On the other hand, it seems that the Warm Front expenditure has been under severe pressure this year, and that this will continue next year; no funding has been provided for pilots to extend the gas network, and the programmes, promised in the UK Fuel Poverty Strategy on renewable energy and micro chp amongst fuel poor households, have not yet been developed.

4 Existing programmes

A) INTRODUCTION

The key anti-fuel poverty programmes are Warm Front, EEC and local authority housing programmes. This is on occasion supplemented with some additional money from energy companies, with charitable funds and neighbourhood renewal funds.

The programmes have had a great deal of success in improving the energy efficiency of low-income households, and Appendix B sets out some information on this.

On the other hand, there are a number of significant issues with the current programmes. It will be important to focus them more intensively on the objective of reducing fuel poverty and to measure their impact on fuel poverty. Appendix C, part 2 demonstrates clearly the need for more focus if the schemes are to have a significant impact on fuel poverty.

We believe that changes should be made to the schemes but considerable notice is needed to give time for new systems and processes to be put in place, staff to be hired where appropriate and training given. Government generally underestimates the time required for this. It is also extremely important that the industry should be confident about the Government's commitment, and hence about a steady workflow. This will have a significant impact on the costs of meeting the targets.

B) COMPREHENSIVE PACKAGE

It will be inefficient and also less satisfactory for customers if those in fuel poverty have several times to be located, visited, have measures proposed for their household, and then installed. In other words, a piecemeal approach will be expensive and inconvenient for customers, and it will be much better for the measures needed to remove a household from fuel poverty to be taken in the course of a single interaction. Two changes are needed to help to achieve this:

- **There should be better integration of the various schemes.** A good deal of this can be achieved by relatively small adjustments to existing schemes, and the Group believe that these changes are important. In addition, there may be a case for more integration at local levels, along the lines of Warm Zones. This should be assessed when there is more experience of Warm Zones, and when it is clear whether similar schemes (such as the British Gas Help scheme) will in any case evolve.

- **The upper limit on Warm Front expenditure should be removed, although safeguards will be needed. There should be more emphasis, in the Warm Front scheme incentives and in promoting the effects of the scheme, on the numbers taken out of fuel poverty, rather than the numbers helped by the scheme.** At present, for various reasons, the numbers taken out of fuel poverty by the schemes are fairly low (see Appendix C2).

C) THE SCOPE OF THE PROGRAMMES

The priority groups in EEC are households on means-tested benefits/tax credits, and on the main disability benefits. There are about 7m such households in England. Those eligible for Warm Front are similar except that Warm Front is not now available for social housing and the range of households is slightly narrower.

It is to be expected that some of those benefiting from the schemes will not be in fuel poverty, since (even on the broader of the Government definitions) there are now about 3.5m households, including non-vulnerable households, in fuel poverty in 2002 in England, compared with 7m on benefits. This wider coverage of the anti-poverty programmes was explicitly recognised in the Government's Fuel Poverty Strategy, and qualification for the current schemes has the merit of being relatively easy for customers to understand. It is estimated that over 50% of those benefiting from the schemes are not in fuel poverty.

More surprising and of more concern is the finding from the Warm Zones that about 30% of those in fuel poverty are not eligible for either EEC or Warm Front. This estimate is very uncertain and it is also partly related to a failure to take up benefits to which households are entitled. However, in part it arises where households have very high fuel bills because of poorly insulated homes, non-gas heating, inefficient heating, and large houses. In other words, fuel poverty is as much or more property than income related. In these circumstances the Group recommends the following:

- The number of those potentially eligible for the fuel poverty programmes could be increased significantly as a result of the changes to the benefit/tax system in 2003, with the introduction of pensions credit and the new tax credits. On the one hand this will make it more likely that households in fuel poverty but outside the scope of the present schemes will be covered. On the other hand, even more of those not in fuel poverty will come within the scope of the schemes. **The Group recommends that some further restrictions should be introduced by excluding those in relatively energy efficient homes, even if they qualify on benefit/tax credit grounds. Clearly there are a number of practical issues, especially the desirability of transparency and simplicity, which will need to**

be worked through. If it is not possible to introduce restrictions of this kind, then very careful consideration will need to be given to the qualifying benefits/ tax credits criteria with the new arrangements from April 2003.

- More radically, consideration should be given to the possibility of using a property rather than income base as the main criterion for coverage of the fuel poverty programmes.
- If this is not feasible, then it will be important for some funds to be available to those administering fuel poverty programmes on a discretionary basis, with the necessary safeguards, to deal with those in fuel poverty (mainly because of their housing and heating) who are not covered by the scheme criteria.
- Benefits health checks should be part of the Warm Front package, as in Scotland.

D) EEC

There are advantages and disadvantages from the strong participation of competing energy supply and other companies in the fuel poverty work. The Group's view is that this involvement is on balance useful, especially as it helps to provide dynamism and new approaches. Just to give three examples: one company is working very closely with health professionals; another company is focusing on a large number of very low income areas working with local authorities and other partners to bring comprehensive help, not just on energy, to households; another company has invested considerable resources and high level management in Warm Zones. Some of the issues of integration with other schemes can in part be overcome where companies use the same outsource partner as Government does for Warm Front.

On the other hand the Group has concerns as to whether the current EEC arrangements for priority groups are the most effective approach. Again, because of the very reasonable drivers in the scheme for short term cost effectiveness, a package approach of comprehensive measures in the house is under current scheme arrangements very unlikely. There is also a specific concern about the focus on light bulbs, with 20% or more of the EEC savings for priority groups expected to come from long-life light bulbs. We would recommend:

- Incentives in the priority group part of EEC for a more comprehensive approach to measures in the home
- After 2005, consideration should be given at least to a significant reduction in the role of light bulbs in the scheme and possibly to their removal from the scheme.

E) SOCIAL HOUSING

In 1998, about one-third of the fuel poor in England were in social housing. 20-25% of those in social housing were fuel poor - a higher incidence than in the owner occupied or private rented sectors.

The Group has already made a difference to one existing programme. We intervened to secure an improvement in the definition of Decent Homes for Social Landlords. There are still concerns about the current energy efficiency standards here but they are now better than they might have been.

There are three main challenges with the thermal comfort part of the Decent Home Standard:

- **It is very important that the standard is implemented.** This is not mandatory on local authorities, even though the Government has set a target of bringing all social housing up to a decent standard by 2010 and this is one of the Office of the Deputy Prime Minister's PSA targets.
- Some households may still be in Fuel Poverty even in those homes brought up to the Decent Standard. This will need to be monitored and appropriate measures introduced if necessary.
- In the Decent Home Standard and the Thermal Comfort section, there are areas of discretion and interpretation. For instance, landlords are asked to install A to C boilers when new heating systems are being installed where this is possible. Similarly, landlords are asked to give consideration to improving other efficiency aspects when work on the thermal energy efficiency of a dwelling is taking place. **In many circumstances it will be very important for social landlords to provide as high standards as possible if households are to be brought out of fuel poverty.**
- It is recognised by the ODPM that the standard does not deal adequately with hard to heat homes, and it is been agreed that there will be further discussion between the Group and the ODPM about this.
- Estimates should be made of the expenditure required to remove households from fuel poverty in social housing and these should be compared with actual energy efficiency expenditure. ODPM should collect information in such a way that the level of expenditure on energy efficiency can be monitored.
- **In view of the importance of these issues we recommend that there should be an annual review of the Decent Homes Standard and its implementation by DTI/ Defra Ministers with their colleagues in ODPM.**

5 Hard to heat homes

More generally, new policies or additions to existing policies are needed for hard-to-heat homes. There are two main categories of hard-to-heat home:

- Over 30% of households have solid walls. The Group's analysis clearly shows that the best, and most cost effective solutions for these homes, if they have a gas supply, is an efficient gas condensing boiler, combined with maximum (300mm) loft insulation, and tank insulation.
- It is estimated that about one third of households in fuel poverty do not have a gas supply. However, a significant number of these homes are within reasonable distance of a gas supply. In these circumstances, the most cost effective solution, again, is to provide a gas connection and install a condensing boiler, with extensive insulation (with the exact measures depending on whether there are cavities).
- Where the costs of connection to gas are too high, the solutions will vary, depending on local circumstances. Oil is a possibility, but has some disadvantages. Renewables (ground source heat pumps, or wood pellets), will be a sensible solution in some areas, especially where a number of houses can be handled on a communal basis - although the costs are quite high. Electric storage heaters with extensive insulation have lower capital costs, but in many cases will not bring running costs down sufficiently to remove fuel poverty.
- The Group's work on high-rise flats is ongoing!

In the light of this, it is the Group's view that:

- **It is very important that money should be made available for a number of pilot extensions to the gas network**
- **The planned fuel poverty renewables pilots should be progressed rapidly, with focus on groups of dwellings, rather than individual homes**
- **Work should be intensified with current schemes to install efficient gas/ insulation combinations in cavity-wall houses where there is a gas supply, or whether there is gas within 23m of the dwelling**

It is recognised that there are other "difficult" areas, such as under-occupancy and private rented accommodation. The Group will be considering these next year.

6 Obstacles and opportunities

A) SKILL SHORTAGES

In the gas installer sector, there is a shortage of skills, which is affecting the capacity to deliver the fuel poverty strategy. A number of other groups and organisations are working intensively on this issue and progress is being made although much remains to be done. The Group's specific recommendations are:

- The main fuel poverty programmes are funded by Government or result from obligations set by Government. **It seems sensible to use these schemes to encourage contractors to participate in training programmes. It is possible that some of the current rules of the schemes inhibit this. If so, serious consideration should be given to their relaxation, although this may be easier with some programmes than others.** The Warm Front scheme managers are at the Group's request; currently consulting the industry about the best way of using the Government schemes to promote training.
- **It might be helpful to develop an agency which does some or all of the following - registers trainees if no work is immediately available; provides help to gas engineers in starting their own businesses; acts as a "cooperative", receiving and distributing work. It would be worthwhile for DTI/Defra officials to pursue these ideas with the gas industry and with other relevant departments - the Department of Work and Pensions and the Department for Education and Skills.**
- **There should be more interaction on these issues between the energy part of DTI and the skills/industrial section.**

On insulation, the main issue is the uneven workflow between summer and winter. Again the Group has been in contact with those involved in the Government programmes, and with the insulation industry to progress the issue. **It will be important to secure more LA work in summer, both directly for the LA programmes and for work in cooperation with the energy suppliers.**

B) PRE-PAYMENT METERS

With modern technology it seems to the Group that it should be possible to provide pre-payment meters at lower cost than at present. In Northern Ireland, Northern Ireland Electricity is fitting new smart meters, which can be used as pre-payment meters and charges the same to pre-payment as credit customers. The meter also provides information, which enables customers to better monitor their consumption. It is appreciated that the market for electricity is different in Northern Ireland, and

that prices generally are higher in Northern Ireland for a variety of reasons. Nevertheless, the non-competitive market in Northern Ireland appears in this case to have achieved better results relatively for pre-payment customers than the market approach in Britain. The Group is not necessarily advocating the Northern Ireland meters as a solution.

However, it is clearly worth exploring whether there is the potential for lower pre-payment costs, and if so, whether intervention of some kind is needed to secure this. This is clearly important for low-income customers - prepayment meters are generally very popular and it would be ideal if they were also low cost.

Ofgem has recognised that this is an important issue. Work is in hand, and the Group will remain in close contact with Ofgem. It is recommended that:

- **If the Social and Environmental guidelines are reviewed, progress on this issue of pre-payment costs should be assessed, and a judgement should be made on whether the guidelines on this point need to be, and can be strengthened or whether work is proceeding satisfactorily under current duties and guidelines.**

C) OPPORTUNITIES/OTHER GOVERNMENT DEPARTMENTS

i) Benefit take-up

There is a strong synergy between some of the Department of Work and Pensions work and the fuel poverty target.

- The fuel poverty targets will only be met if a higher proportion of households claim the benefits to which they are entitled.
 - If benefits are claimed, household income will be increased
 - Benefits are passports to the fuel poverty programmes and hence to increased energy efficiency for low-income households
- DWP has a PSA of providing Pension Credit to at least 3m pensioner households, so DWP has an interest in increased take-up.
- Pensioner households accounted for 70% or more of vulnerable households in fuel poverty in England in 1998.

Even though take-up is the prime responsibility of DWP, a number of organisations involved in fuel poverty programmes have - because of the importance of benefit take-up for fuel poverty - been running benefit health checks to increase take-up. The Group and DTI/Defra officials are in contact with DWP and other relevant organisations such as the Citizen's Advice Bureau, and the Local Government Association. Again from a customer viewpoint this is critical - take-up on benefits increases household income and is the gateway to energy efficiency measures and lower fuel costs. It is recommended that:

- **This is pursued vigorously to ensure that all opportunities for cooperation in this work with DWP (and also local authorities, and others) are taken and that benefit take-up is provided in the most cost effective way.**
- **It is very important that benefit health checks should be a standard part of fuel poverty schemes and it would be very helpful if DWP provided matched funding for this.**
- **There should be more integration between DTI's role in fuel poverty and its role as a major funder of NACAB (the CAB central office).**

ii) Office of the Deputy Prime Minister - Housing and Neighbourhood Renewal

As noted, fuel poverty is to a significant extent a housing problem and the importance of the Decent Homes Standard has been discussed in Section 5(e) above. Moreover, the Neighbourhood Renewal Unit has objectives to secure improvement in deprived areas and in this context the ODPM has a PSA objective of promoting better policy integration nationally, regionally and locally. We would highlight the following:

- **At or around the time of Voluntary Stock Transfer energy efficiency improvements should be undertaken to remove households from Fuel Poverty.**
- **The Home Health and Safety Rating Scheme should be used to improve energy efficiency and reduce fuel poverty especially in the private rented sector, with resources being provided to help private sector landlords. The Licensing System for private landlords will also have a role to play.**
- **The Neighbourhood Renewal Unit is willing in principle to help to encourage local authorities to give more priority to fuel poverty - and this will potentially help with funding. **Given the importance of housing and given the ODPM objectives of integrating policies, it is recommended that there should be regular contact between DTI/ Defra and ODPM and that ODPM should be encouraged to integrate fuel poverty policies into its own programmes.****

iii) Department of Health

Warmer homes can have a significant impact on a number of illnesses and can save health service costs. The Group will be looking next year in detail at the links between warmer homes and health, and at the policy implications.

7 Resources

There are very great uncertainties about the resources needed to meet the fuel poverty targets. The main sources of uncertainty are:

- The extent to which fuel poverty will be reduced by other Government programmes to reduce poverty and deprivation, especially increases in benefits/tax credits, and the extent to which this will be offset by, or indeed more than offset by, rising fuel prices.
- The amount, which needs to be spent to reduce fuel bills sufficiently - especially in the more difficult properties.

Any estimates have to be treated with caution, but the best estimates of the Group at present are:

- Current programmes, including some LA expenditure, are running at about £300m per annum. Over the decade 2000-10, this comes to £3bn, if present programmes continue beyond their current commitment dates.
- In 2000 there were 2.3m vulnerable households in fuel poverty in England (on the narrow definition including housing benefits in income).
- It might cost around £2000 per household to remove fuel poverty in these households.
- The costs of meeting the 2010 target would thus be just over £4.5bn pounds.
- With the broader definition (excluding housing benefit) there were 3.2m vulnerable households in fuel poverty and the cost would then be £6.5bn.
- There are a variety of factors some of which increase and some of which reduce these costs.
- Very preliminary work suggests that if current policies are continued unchanged until 2010, 1.5m vulnerable households will still be in fuel poverty at that time, even on the narrow definition. This is based on the assumption of no further real change in fuel prices or levels of benefits/tax credits.
- Further details of the estimates of resources needed, numbers in fuel poverty and impact of fuel prices and benefit changes are in Appendix C. It will be important for the Government to take this work forward and refine the estimates.

Against this background, our judgement is that resources have to be increased by at least 50% to meet the Government's targets over the whole decade, and this implies somewhat more than 50% in the second half of the decade. It is recommended that DTI/Defra should now provide more thorough estimates of the costs or at least of a range of the possible costs of meeting the targets.

8 Energy Policy White Paper

The PIU proposed the introduction of policies to secure a step change in energy efficiency and to reduce carbon emissions. To the extent that climate change and environmental objectives are met through increased energy efficiency, there is little tension between environment and social objectives and indeed there are synergies, since increases in energy efficiency are the key direct instrument for removing households from fuel poverty.

In addition, the more homes, heating systems and appliances are efficient, the lower is the chance of a household on low income being in a poorly insulated home with inefficient appliances. If the market is transformed with more focus on highly efficient appliances, then the cost of these are likely to fall for all customers as a result of economies of scale.

There are some potential tensions between other measures, e.g. further increases in the renewables share may exacerbate fuel poverty because of the impact on costs and prices. However, fuel poverty considerations need not be an obstacle to giving a high priority to environmental objectives, given the commitment to the measures outlined in this section, and given that the impact of the proposed environmental policies on costs and prices is not - on the PIU estimates - excessive (and is, for example, within any range of uncertainty about the level of fuel prices).

9 Conclusions

- It is very helpful that the Government has set fuel poverty targets. These potentially provide focus and drive.
- It will be important now to review progress towards the targets and to carry out the work needed to do this.
- Existing schemes should be modified to focus more intensively on those in fuel poverty.
- There should be work with other Government Departments to ensure that their programmes take account of the fuel poverty targets.
- It is highly likely that even with modified schemes more resources will be needed to meet the targets.

Appendix A

Fuel Poverty Advisory Group 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 Group is to consist of a chairman and senior representatives from organisations such as the energy industry, charities and consumer bodies. These members would be representatives *ex officio* members rather than individuals, who should be able to take a broad and impartial view.

The role of the Group is:

- To consider and report on the effectiveness of current policies in delivering reductions in fuel poverty at regional and local levels
- 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.

Membership of Fuel Poverty Advisory Group

CHAIR

Peter Lehmann
Chair, Energy Saving Trust

MEMBER ORGANISATIONS

	Nominated Representative	Position in organisation
Association for the Conservation of Energy	Jerry Robson	Member of ACE Governing Council
Centrica	Mark Clare	Managing Director, British Gas
EAGA	John Clough	Chief Executive
Energy Efficiency Partnership for Homes	John Chesshire	Chair
energywatch	Ann Robinson	Chair
Help the Aged	Mervyn Kohler	Head of Public Affairs
Innogy	Brian Count	Chief Executive Officer
Local Government Association	John Hannam	Income Maintenance Advisor
National Energy Action	William Gillis	Chief Executive
National Heart Forum	Noel Olsen	Trustee
Public Utilities Access Forum	Gill Owen	Chair
Transco	Rob Verrion	Chief Operating Officer
TXU	Roger Partington	Executive Vice President

Appendix B

WARM FRONT

- 1 The Government's main programme for tackling fuel poverty in England is the Home Energy Efficiency Scheme, now marketed as the Warm Front Team. The scheme, which was launched in June 2000, is funded by the Department for Environment Food and Rural Affairs, and provides packages of insulation and heating measures up to £2,500 to private sector households on certain benefits.
- 2 In the period June 2000 to June 2002 Warm Front assisted over 400,000 households and spent over £200 million on installing measures. From the launch of the scheme to April 2002, the programme:
 - Installed 49,000 new gas central heating systems
 - Insulated 153,000 cavity walls
 - Insulated 139,000 loft spaces
 - Draught proofed 205,000 homes
 - Fitted 376,000 low-energy light bulbs
- 3 Over the last 2 years, about 30% of the number of the households assisted have been social housing. This is reflected in the relatively low average spend of £514 per property, as social housing tends to have good insulation or other financial support available. Funding for social stock was time-limited to 2 years from the Scheme's launch. WFT now targets the private sector only. It is expected that this will lead to higher marketing costs, and work will no longer be concentrated within specific areas. Average spend should therefore increase, but the numbers reached are expected to slow down.

ENERGY SUPPLIER INITIATIVES

- 4 A variety of creative schemes are being offered by companies to help tackle fuel poverty. A few schemes operate nationally and are reaching a lot of customers, but most are relatively small (although they can do a lot of good for those who benefit from them). Most schemes have been developed within the EESoP (now EEC) commitment, but several have been developed over and above this.
- 5 DTI has been developing arrangements for monitoring the impacts of these company schemes. These analyses will form part of the suite of information to be published as part of the cycle of annual progress reports on the UK Fuel Poverty Strategy. The Fuel Poverty Advisory Group has been concerned to ensure that this monitoring should measure how well the company schemes are performing against their objectives of helping customers with low incomes and those in fuel poverty. This means that monitoring information will need to include:

- How many households have been helped
 - To what extent the household have benefited
 - The extent to which they are EEC/non EEC schemes
 - Whether these schemes are an important contribution to fuel poverty alleviation and whether they harness company creativity
- 6 DTI has collected data from companies for schemes running in 2001, although some of the data quality has been poor, and this has hampered proper analysis. Part of the problem is that in many cases companies did not have the reporting arrangements in place at the time, so there is simply no data available to collect retrospectively. FPAG will continue to keep an eye on the monitoring of these schemes, so that it will be able to offer a more complete analysis of the effects of these schemes on fuel poverty.
- 7 With the caveat about data quality expressed in paragraph 6 above, the data that exists suggest that about 1½ million households have benefited from these schemes: of these over 1 million are reported to have benefited from energy savings; almost ½ million have benefited from schemes developed outside of the EESoP/EEC commitment; customers could have seen average savings of about £30 a year as a result of these schemes, either directly on their bills, or as an improvement in energy efficiency. Three schemes have also been able to provide some very encouraging results on the usefulness of benefits health checks, with about 600 eligible households each seeing an average £900 in additional benefits.

Appendix C

1 COST OF ERADICATING FUEL POVERTY

Some very preliminary, broad estimates are set out below:

- Analysis based on the English Housing Condition survey combined with a little Warm Zone data suggests that it may cost £2000 (see Annex) per household in fuel poverty in order to eradicate fuel poverty.
- There were about 2.3 million vulnerable households in fuel poverty in England (or 3.2m excluding HB/ISMI income) in 2000.
- If these numbers are right, the costs of eradicating fuel poverty amongst vulnerable households over the 10 years 2000-2010 are £4.6bn (excluding the higher costs in non-gas supply areas).
- Expenditure on Warm Front/EEC (for priority groups) is running at about £250m per annum. With Local Authority capital expenditure on energy efficiency this might come to £300m per annum. Over 2000-2010 this is £3bn (with adjustment made for expenditure levels in earlier and later years of the decade).
- The position might be better than this because of:
 - Increased benefits take-up, hence increased income
 - Increases in benefits/tax credits (since 2002 these may have reduced vulnerable households in fuel poverty by 0.4m)
 - Housing demolition (probably small impact)
 - Housing improvement
 - Other measures - the last 20% of fuel poor households may be very expensive and other measures such as dealing with under-claiming of benefits or under-occupancy may be more effective
- On the other hand the position might be considerably worse because of:
 - Homes outside gas supply area (the data seem to come from gas areas).
 - **WF/EEC not sharply focused on those in fuel poverty.**
 - Some EEC measures (appliances and lighting) have a negligible effect on fuel poverty as it is defined and measured (even though in reality they reduce fuel bills).
 - Costs of finding and reaching the fuel poor are likely to rise, as the "low hanging fruit" is picked.

- The costs of programmes inevitably cover considerable administrative and marketing costs, not just the costs of the measures - and these will absorb part of the £3bn current programme.
- Possibility of increased unemployment (on the other hand there could be further increases in employment - although there may be less scope for this).
- Possible energy price increases.

It looks highly likely that the programmes are not large enough, especially because of the imperfect focus of the current programmes (this is not a criticism of them, especially as the programmes aim to reduce the risk of fuel poverty, but almost inevitably they pull in a lot of people who are not fuel poor).

On the basis of the information available, it seems that the programmes might need to be increased by over 50% for the rest of the decade, in order to eradicate fuel poverty amongst vulnerable households by 2010 (even on the definition including HB/ISMI).

2 NUMBERS LIKELY TO BE IN FUEL POVERTY IN 2010 - PRESENT POLICIES

The figures quoted below are only estimates and provide a best guess with the information currently available.

- There were 2.3m vulnerable households in fuel poverty in England (or 3.2m excluding HB/ISMI income) in 2000.
- Warm Front - 200,000 households p.a. receive measures, 80,000 (40%) are in Fuel Poverty). Perhaps half of these will be taken out of Fuel Poverty. **So 20% of those helped by WF come out of Fuel Poverty on the assumptions - 40,000 p.a.**
- Assume 30,000 p.a. for combination of EEC and LA expenditure.
- Assume another 10,000 p.a. over time as a result of interactions i.e. those brought nearly out of Fuel Poverty by WF may then receive EEC or WF measures later; or houses improved while the household is not in Fuel Poverty may later prevent a household in that house from becoming Fuel Poor; and also as a result of replacement over time of old central heating.
- So energy efficiency measures on these assumptions will (while improving the homes and heating of low income families) only reduce Fuel Poverty by 80,000 p.a. or 800,000 over the decade leaving 1.5m (2.4m) vulnerable households still in Fuel Poverty.

- Even with more optimistic assumptions - 50,000 householders p.a. from Warm Front, 40,000 p.a. from EEC and 10,000 p.a. interactions, numbers in Fuel Poverty are reduced by 100,000 p.a. and 1m over the decade. Given that the average WF grant is only on average about £400-£500 it is hard to envisage that more than this could be brought out of Fuel Poverty.
- These conclusions are strongly supported by an interesting article by Tom Sefton of LSE¹. There may be some issues with his numbers but his assessments would be more pessimistic than the one presented here and it is certainly arguable that the numbers here are on the optimistic side.
- These would then be the numbers in fuel poverty if fuel prices and benefits/tax credit levels do not change in real terms or if fuel prices and benefits/tax credits rise or fall by the same amounts.
- For every 1% real change in gas and electricity prices the number of vulnerable households in fuel poverty changes by about 50,000 (full income definition).
- Similarly for every 1% change in real benefit/tax credit levels the number of vulnerable households in fuel poverty changes by about 50,000.

The inescapable conclusion is that even with significant increases in resources the Fuel Poverty targets will not be met unless Warm Front and the other programmes are focused more intensively on those in Fuel Poverty.

¹ Targeting Fuel Poverty in England: Is the Government Getting Warm? Fiscal Studies (2002) vol. 23, no. 3, pp. 369-399

Annex

- 1 The 1996 English Housing Condition Survey was used to assess the cost of measures needed to secure given reductions in fuel expenditure required to meet the specified heating standards.
- 2 Data from 1 ward in Stockton and from some work in Camden were used to get information on current required fuel bills (i.e. fuel expenditure required to meet the heating standards) and on income levels.
- 3 The necessary reduction in fuel bills, to eradicate fuel poverty, was estimated.
- 4 The cost of securing these reductions was estimated from 1.

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[www.dti.gov.uk/energy/consumers/
fuel_poverty/fuel_adv_grp.shtml](http://www.dti.gov.uk/energy/consumers/fuel_poverty/fuel_adv_grp.shtml)