

Fuel Poverty Advisory Group
(for England)

Third Annual Report

2004/5

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Summary and key recommendations

There has been a great deal of progress on policy in the last year. We now have a good Public Service Agreement target, additional resources for fuel poverty programmes in both Warm Front and the Energy Efficiency Commitment (EEC), some very welcome changes to Warm Front, and the first policy measures – announced in the Government's 'Fuel Poverty in England: The Government's Plan for Action' – on fuel poverty in the private rented sector.

However, the achievement of the fuel poverty targets has been made more difficult by the significant increases in energy prices, and the Government has not provided any assessment of whether it is on track to meet the 2010 target of eradicating fuel poverty in vulnerable households in England, or of the resources which will be required to do so.

Our conclusion last year was that the 2010 target could be met – but would not be achieved by “business as usual”. This is even more true now: we need imagination in obtaining resources, creativity in securing the lowest possible prices for low income customers and – yet again – much more engagement across Government. Time is running out – 2010 is now only five years away.

OUR KEY RECOMMENDATIONS ARE:

- It was disappointing that the Government's Plan for Action did not estimate the resources required, and did not review the adequacy of existing policies to tackle fuel poverty. FPAG will now update its own earlier work on resource requirements, and we **hope very much that Government will give its views in the next Fuel Poverty Strategy Annual Progress Report.**
- Because of the price increases, more resources than previously anticipated will be needed. **As the upstream producers have secured windfall revenues from the price increases, some of this revenue should be taxed and recycled into the fuel poverty programmes.**
- Low income households tend to pay more than high income households for each unit of energy. There are a variety of reasons for this, but much more creativity, especially from Ofgem and the Government, is needed to secure the best possible prices and offers for low income customers.
- It is essential now – with only about five years remaining to meet the 2010 target – that the **Government faces up to the difficult areas, especially hard to heat homes and the private rented sector, and provides action plans for dealing with fuel poverty in these areas.**

- There is a great deal of money available from the Warm Front Scheme Managers and the energy companies for energy efficiency measures. There are many vulnerable households who could benefit from fuel poverty programmes who are already in touch with staff from Government Departments and Agencies, the Health Service and Local Authorities. **It is important that other parts of Government become more actively engaged on fuel poverty – to refer households to the schemes – so that as many of the available resources as possible can be devoted to energy efficiency measures rather than to marketing.**

1 Introduction

This report covers:

- Progress on Fuel Poverty
- 'Fuel Poverty in England: The Government's Plan for Action'
- Public Spending Round and Resources
- Sources of Extra Resources
- Prices for Low Income Customers
- Hard to Treat Homes
- Current Fuel Poverty Programmes
- Other Government Departments

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

2 Progress on Fuel Poverty

There were further reductions in fuel poverty between 2001 and 2002, with the key data in Table 1. They are taken from the Government's *UK Fuel Poverty Strategy Second Annual Progress Report*.

TABLE 1
FUEL POVERTY IN ENGLAND, 2001 AND 2002

	Number of households (m)	
	2001	2002
Households in fuel poverty	1.7	1.4
Vulnerable households in fuel poverty	1.4	1.2
Households in fuel poverty (broader definition)	2.3	2.0
Vulnerable households in fuel poverty (broader definition)	2.0	1.6

It will be seen that 1.4-1.6m vulnerable households – the key group for the 2010 target – were in fuel poverty in 2002.

Since 2002, energy prices have risen, with the real increase in retail gas and electricity prices likely to be a little under 10% between 2002 and 2005. Details are in Table 2.

TABLE 2
REAL INCREASES IN GAS AND ELECTRICITY PRICES 2002-5
(DTI ESTIMATES)

	%
Gas	11
Electricity	7

Incomes have also been increasing because of general increases in income and sizeable increases for low income groups, especially with the introduction of Pension Credit and Child Tax Credit. As a result of the changes in prices and incomes, but **excluding the impact of energy efficiency measures, it is estimated that in 2005 the number of vulnerable households in fuel poverty in England will be about 1.3m, a little more than in 2002**. The price increases will have added 400,000 to the number of vulnerable fuel poor, while the income increases will have reduced the numbers by 300,000, a net increase of 100,000.

3 Fuel Poverty in England: The Government's Plan for Action

Detailed issues from the Plan will be dealt with in the sections below. However, in broad terms:

- **The policy changes in Warm Front are very welcome** – especially the aim of achieving a SAP rating of 65, and the provision of central heating to all eligible households.
- **The small policy change in the private rented sector** – giving local authorities powers to act where landlords prevent tenants from receiving Warm Front measures – is welcome as an indication that action is needed in the private rented sector.
- This is, however, not a plan. There is no estimate of the resources required, no timeline to meet the 2010 and 2016 statutory fuel poverty targets, no consideration of the major obstacles and no assessment of the options available for overcoming them.

- **There is not enough focus on the role of Government Departments and public bodies other than Defra/ DTI in combating fuel poverty.**

It may seem churlish to be so critical when the policy changes are so welcome. But if the tough challenges of the fuel poverty targets are to be met, it will be necessary to plan, to be open about the obstacles, and to involve other Government Departments much more effectively.

4 Public Spending Round and Resources

Defra and DTI have a joint Public Service Agreement (PSA) target to: "Eliminate fuel poverty in vulnerable households in England by 2010 in line with the Government's Fuel Poverty Strategy Objectives." **We welcome the explicit link with the statutory 2010 target.** In practical terms, the PSA target will be on track for achievement if the number of vulnerable households in fuel poverty at the end of the Spending Round in April 2008 is down to 300,000 – 400,000.

There has been a significant increase in the resources available for Warm Front for the period April 2005-8, and this is clearly most helpful. The increases amount to about 20% in real terms, concentrated in the latter years. If the high expenditure of £250m planned for the last year of the Spending Round is maintained for the subsequent two years then the real increases over the five year period 2005-10 would be about 30%.

The amount of EEC activity will be doubled, with half of the benefits continuing to go to the Priority Group. There is uncertainty about the level of expenditure by the energy supply companies under EEC, but overall EEC expenditure might be £350m per annum with perhaps £225m per annum being spent on the Priority Group. **Again, the expansion of EEC and the maintenance of the focus on the Priority Group are welcome.**

We estimated last year that, if EEC were doubled in this way, Warm Front would need to be increased by somewhat more than 50% to meet the 2010 fuel poverty target for vulnerable households (on the narrower definition).

Because of the energy price movements, the estimates of resources required are now higher. DTI's base case price scenario, published in the Fuel Poverty Action Plan, is a modest one, and envisages significant reductions in gas prices from current levels.

Nevertheless, their forecast prices for 2010 are higher than previously by 3-4%. This adds about 10% to the estimated resources required.

The impact of these changes will be examined in more detail in an update of the assessment of resource requirements. **But it is very clear that additional resources will still be needed to meet these tough targets.**

5 Sources of Extra Resources

Ideally, the Government would provide the extra resources. But, given current circumstances and given that the Spending Round has just started, it will be important to be creative in securing additional resources.

The energy price increases have increased fuel poverty. The big gainers from these increases are the offshore gas and oil producers – Esso, Shell, BP and some smaller companies. Some of their extra revenue is taken in additional tax (and so the Treasury has also gained), **but the producers will still be making considerable gains of perhaps around £2bn per annum from the higher UK Continental Shelf (UKCS) oil and gas prices. These numbers are based on Treasury data, and Appendix 2 sets out the background to the estimates.**

There are a number of well known difficulties, but **there does seem to be a case for a temporary tax on the offshore producers, with the tax proceeds focussed on durable Fuel Poverty measures (especially energy efficiency and heating)**, or for a voluntary agreement by the offshore producers to provide significant financial support to the Fuel Poverty programmes. It is appreciated that the detailed tax provisions would need to reflect the wide variations between fields and producers in marginal tax rates.

There is an interesting precedent for such a tax from the United States. Some of the revenues received by oil producers as a result of high oil prices in the 1970s were recycled into energy conservation programmes. A temporary tax on producers was introduced and this funded an insulation programme for low income households.

These windfall revenues of the upstream producers are the most important source of additional potential resources. They would potentially be used for fuel poverty programmes for homes in rural areas currently off the gas network, especially those which are hard to treat; and to expand existing programmes, such as Warm Front, and Benefit Entitlement Checks.

Given that Treasury has also secured additional tax revenue as a result of the energy price rises, it seems reasonable that any additional revenue from producers for the fuel poverty programmes should be matched by a similar contribution from Treasury.

A further possible source of revenue arises because it has been reported that National Grid Transco (NGT) is likely to sell four of its eight Regional distribution companies at 15-20% above their regulatory asset value, and that NGT will be returning £2bn to shareholders and increasing its dividend by 20% in the current year. This is a very different issue, and is not part of the cause of the energy price rises. It is also acknowledged that NGT have in the past been very supportive on fuel poverty, although not on this scale. **Again, there appears to be a case for securing a part of the gains from the sale by NGT for customers and for assisting the fuel poor.**

Finally the DTI's Design and Development Unit is drawing on a range of funding sources to secure gas network extensions and renewables projects where gas cannot practically be supplied. Regional Development Agencies and the EU are potential funding sources, but some DTI/Defra money is needed to act as a catalyst.

It is very likely that resources through all these channels will be needed if the statutory Fuel Poverty targets are to be met.

6 Prices for Low Income Customers

The position is not clear-cut, but those on lower incomes are likely to pay more for their gas and electricity.

Customers on prepayment and standard credit tariffs pay more than those on direct debit – prepayment customers paying about 13% more in both gas and electricity, and standard credit customers 8% and 4% more in gas and electricity respectively. Switching is also lower – about 35% amongst prepayment customers compared with an average of 50%.

Prepayment customers tend to be on lower incomes – with a third of prepayment customers in the lowest two income deciles (i.e. amongst those with the lowest 20% of incomes).

The price increases have highlighted the importance of securing the best possible prices for low income customers.

Against this background, we would propose:

- **The utility companies should work to increase awareness amongst their customers of the high price of prepayment and standard credit tariffs**, and encourage them to take advantage of direct debit, where this is appropriate (although it is appreciated that it will not always be appropriate).
- **The Government, Ofgem and energywatch should do everything possible to encourage low income customers to take advantage of low prices/ better value offers from suppliers** (although it is appreciated that switching will not be practicable for some vulnerable customers).
- **DTI, with support from Ofgem, should vigorously promote the development of a scheme similar to that in the Republic of Ireland**, which enables direct payments of energy and other bills to be deducted from benefits via the Post Office. The administrative costs are low, and so it should be possible to offer a favourable tariff.

- **Ofgem should give much more serious consideration to the provision of incentives/ obligation/ facilitation for tariffs for low income customers.** Ofgem has provided very useful guidance on the Competition Act, which in broad terms suggests that companies have considerable scope for introducing social tariffs. Ofgem has indicated that the companies are in the best position to develop such tariffs. This is reasonable, but Ofgem will need to do more if such tariffs do not emerge soon as part of the normal operation of the market.
- Government and Ofgem should work seriously **to secure the modernisation of meters and meter reading, and specifically to reduce the costs of prepayment meters.**

7 Hard to Treat Homes

There has been little progress here. Oil central heating can now be installed under Warm Front (although this conflicts with Government's Climate Change objectives). The Warm Front scheme arrangements will also make it possible to include other forms of heating if this is thought appropriate in future. Some of the significant additional funds for Warm Front, especially for 2007/8, might be available for special measures for Hard to Treat homes.

In some cases, Hard to Treat Homes need community rather than individual house solutions. These cases will require significant changes to Warm Front or a separate programme, such as a revised Community Energy Programme.

The Design and Demonstration Unit in DTI has projects for gas and also for renewable heating outside gas supply areas. **However, there has been no money for gas network extensions and no assessment by Defra/DTI of the best solutions in different circumstances to address fuel poverty outside the gas supply areas.**

8 Current Fuel Poverty Programmes

The shape of both Warm Front and EEC for the next three years has been broadly settled, and so our comments on them are brief.

All the changes in Warm Front are extremely welcome, and we are pleased that Government has responded to many of the proposals made by FPAG and a wide range of practitioners.

The Group is rather more disappointed with the EEC provisions. It would have been better to have more focus in the EEC Priority Group work on fuel poverty abatement. Because EEC, especially for low incomes groups, will be focussed even more heavily on a narrow range of measures, it **is still more important that there should be effective interaction of EEC and Warm Front**. It is particularly critical that a single survey of the house should be able to establish all the work required.

Finally, where there is interaction, it is important that there should be transparency about the work done under Warm Front and EEC to make possible proper tracking and monitoring of activity.

9 Office of the Deputy Prime Minister

There has been somewhat more engagement from ODPM on fuel poverty but a very great deal still remains to be done.

- **ODPM accept that there will still be some households in fuel poverty, even if their homes meet the Decent Homes Standard. They recognise that something will have to be done about this in the social sector** and this is helpful. As noted above, homes in the private sector receiving a Warm Front grant will very helpfully be brought up to a high level of energy efficiency – a SAP rating of 65 – where this is practical. This is likely to lead to pressure for a similar SAP 65 standard in the social sector to match that secured in the private sector by public funds via Warm Front. In the face of these developments, the very least which can be expected of ODPM is an intense focus on resolving the social sector Fuel Poverty problems.
- It is helpful that the Government has agreed to FPAG's proposal that a refusal by a private landlord to have Warm Front or EEC work carried out should be a trigger for a Local Authority (LA) to assess the dwellings under its Housing Health and Safety Rating System (HHSRS). **It will now be important that LAs are given the necessary guidance, training and resources, so that the HHSRS powers can be used.**

- More broadly, **ODPM should give very positive guidance and should provide resources to encourage LAs to proactively use their HHSRS and HMO (Houses in Multiple Occupation) powers, in order to increase energy efficiency in the private rented sector. The barriers to energy efficiency in the private rented sector are so great that clear-cut regulation is likely to be the only solution – unless the HHSRS and HMO powers can be made effective on energy efficiency.**
- The energy companies have money and measures for energy efficiency. LAs have links via their staff to many customers who could benefit hugely from these measures. **ODPM should be more proactive in bringing LAs and the energy companies together, so as to enable more LA vulnerable customers to tap into the money available.**
- **ODPM should ensure that there is adequate focus on fuel poverty in renewal/regeneration programmes.**

10 Department of Health

There has been virtually no progress. Again, the energy and the energy efficiency companies want assistance from the health services in getting help available to those most in need. This will help the Department of Health and the National Health Service to meet their own targets. **In spite of this, there is still a lack of engagement from the Health Sector centrally (although there are some good local exceptions). This needs to change, and we are now in touch with senior officials in the Department of Health. There was amazingly no mention of fuel poverty in the Public Health White Paper. This needs to be rectified in the Public Health Delivery Plan.**

11 Department for Work and Pensions

There are huge potential synergies between DWP and the energy/energy efficiency companies. DWP, through their customer contacts, can signpost people to the fuel poverty schemes, and the energy companies can and do increase benefit take-up – there is a clear scope for mutual help in achieving objectives.

- **Some progress has been made, e.g. the Pensioners' Guide gave information on the importance of a warm energy efficient home and provides the necessary contact details.** We are hopeful that there will be more. A number of FPAG members held a workshop with the Pension Service to examine creatively the possibility of working

together, and the Pension Service is actively engaged. **It is important now that concrete measures are speedily developed.**

- These initiatives tie in well with DWP's Link-Age work – a drive to provide easy access for older people to information about the full range of services (e.g. one stop shops, single telephone numbers, etc). **We have proposed that the fuel poverty schemes should have a high profile in this provision of information to older people.**
- We look to DWP to work positively on the proposals discussed in Section 6 above, for a direct payment scheme similar to that in the Republic of Ireland.
- Finally, DWP have told us that they will amend the **Social Fund guidance, so as to increase the numbers of customers buying new energy efficient fridges**, rather than inefficient, costly to run, second-hand fridges. We will be discussing the details with them shortly.

12 Conclusions

Our main concerns this year are:

- With only five years to go to 2010 – the first target year – it is important to assess what additional measures are needed.
- The price increases have underlined the importance of creativity in securing additional resources.
- The price increases have also emphasised the importance of securing the best possible price offers for low income customers.
- As last year, we urge that other Government Departments should engage much more effectively on the fuel poverty targets.

Appendix 1

Membership of the Fuel Poverty Advisory Group

Chairman

Peter Lehmann

Member organisation	Nominated Representative	Postion in organisation
Association for the Conservation of Energy (ACE)	Jerry Robson	Chairman
Centrica Plc	Mark Clare	Deputy Chief Executive
Citizens Advice	Teresa Perchard	Director of Policy
Eaga Partnership Ltd	John Clough	Chief Executive
EDF Energy	Derek Lickorish	Chief Operating Officer
Energy Efficiency Partnership for Homes	John Chesshire	Chairman
energywatch	Lesley Davies	Policy and Research Director
Help the Aged	Mervyn Kohler	Head of Public Affairs
Local Government Association	David Pickles	Energy Agency Manager
National Energy Action (NEA)	William Gillis	Chief Executive
National Grid Transco	Ruth Thompson	Group Corporate Affairs Director
National Heart Forum	Dr Noel Olsen	Public Health Physician Trustee
Powergen	Nick Horler	Head of Retail
Presentation Housing Association	Mohni Gujral	Chief Executive
Public Utilities Access Forum	Gill Owen	Chair
RWE npower	Andy Duff	Chief Executive Officer

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.

Appendix 2

Producers' Revenue

The Pre Budget Report set out estimates of the extra tax from the North Sea as a result of the higher oil and gas prices. The Report in effect confirmed that the producers have received very substantial additional revenue as a result of the increases in oil and gas prices.

In Annex B to the 2004 Pre Budget Report, it is estimated that Treasury North Sea revenues will be £13/4bn higher in 2004/5 than forecast in budget 2004 and over £2bn higher from 2005/6 onwards (B50 and B53).

The North Sea marginal tax rate is around 50%. The implications of these estimates for windfall revenues received by upstream producers are set out in the table below.

Additional North Sea Revenue – 2005 estimate

Gross additional producers revenues	£4bn
Additional tax (50%)	£2bn
Additional net producer revenue	£2bn

Thus the windfall revenue of producers – after tax – are about £2bn pa. This is something of an underestimate, as gas prices in particular had started rising before the 2004 budget – so some extra revenues were already built into the Budget (the Treasury has, of course, also gained).

So it is clear, and now confirmed by the Treasury, that upstream producers are securing very substantial windfall revenues.

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