

Executive summary

1. A clear fuel poverty strategy is needed to identify how the 2016 obligation is to be achieved, to include interim targets, timescales, expenditure and policies, with sufficient allowance for further fuel price rises. There needs to be just one strategy, bringing together the various policy strands.
2. The solution to fuel poverty lies in capital investment programmes to lower the fuel bills of affected households.
3. Policy should switch to targeting the worst houses, rather than the poorest people.
4. Responsibility for reducing levels of fuel poverty has to be clearly identified, together with defined sanctions for failure.

Answers to the Committee's questions:

5. It is not possible for Defra to meet the 2010 target to eradicate fuel poverty for the vulnerable. The 2016 target is extremely challenging (Q1).
6. A standard of SAP 81 (SAP 2005 procedure) is required to ensure that, in the majority of cases, a household does not live in fuel poverty at today's fuel prices (Q2).
7. None of the Government's recent documents give sufficient weight to the way in which fuel poverty is going to be tackled and the targets reached (Q3).
8. An energy efficiency programme of at least £5bn pa is required and this should be co-ordinated by the local authorities and/or the Homes and Communities Agency to eradicate fuel poverty by 2016 (Q4).
9. Within the overall strategy, there should be clear targets for separate sectors, such as social housing and utility programmes (Q5).
10. There are appropriate measures for all properties, including hard-to-heat (Q6).
11. Smart meters and informative displays could help the fuel poor, if properly focused (Q7).
12. Data-sharing on people's circumstances should be kept within public bodies. Data on the energy efficiency of homes can be shared extensively (Q8).
13. There should be an increase in the number of well-built, new homes available for the fuel poor (Q9).
14. Better targeting of Winter Fuel Payments on the fuel poor is essential (Q10).
15. A substantial investment programme in the worst, existing homes would assist with the 2016 legal obligation, provide employment for construction workers who have ceased to work on new buildings, reduce the recessionary pressures and fulfill Stern's advice to, 'invest to save'.
16. At the core of this debate are attitudes to investment in the housing stock. The latter is a national asset, worth around £4 trillion in the UK (26 million x £150,000) that is poorly equipped to cope with the challenges of climate change. Investment to reduce demand in our homes should be placed on a par with investment to increase supply in our power stations and grid. This is particularly important for low-income, fuel poor households, many of whom are in rented accommodation. The investment has to be with someone else's capital. Often, the expectation is that this capital is to be found out of current accounts, rather than capital funds. For instance, the utilities are raising money from household bills to spend on capital improvements, through CERT.
17. Investment in energy efficiency should be treated separately and funded through different routes to income support measures. They should be seen as complementary as, in the short-term, both are needed.

Main text

18. The definition being used is that a household should be able to obtain adequate energy services for less than 10% of its income, otherwise it is in fuel poverty. This response deals mainly with the situation in England.

Strategy

19. The Government needs to produce a clear strategy that identifies how the 2016 target to eradicate fuel poverty will be achieved, even if fuel prices continue to rise. This strategy should identify timescales and interim targets, responsibilities, costs, expenditure and policies. No such document currently exists: the Fuel Action Plan (Defra 2004) focused on 2010 and the original Strategy (Defra 2001) is based on out-of-date fuel prices.
20. In particular this new strategy has to answer some fundamental questions:
1. Does the legal obligation determine the budget, or does the budget limit the legal obligation? And thus, is the current level of expenditure maintained or increased?
 2. Should the expenditure split between income support and energy efficiency investment stay in the present proportions (roughly two-thirds: one-third) and how should this vary over time? This is effectively a choice between symptoms (and immediate amelioration) and causes (and long-term reduction).
 3. What proportion of the expenditure should come from the Government and income tax payers (rarely the fuel poor) and what proportion from the utilities and energy bill payers (including the fuel poor)?
 4. Is the aim to target the fuel poor more accurately and thus make 'fuel poverty' expenditure more effective? Or is it satisfactory to have an extensive, poorly-focused programme that fulfils other objectives, such as carbon reductions, increasing awareness and pension support?

Present situation

21. There are now more households in fuel poverty than the 2.8m households that were in fuel poverty when the Warm Homes and Energy Conservation Act was passed. How many more is not clear, as the Government has not provided recent figures. The most up-to-date published statement for England comes from the Fuel Poverty Advisory Group (FPAG), which estimated 2.9m households in fuel poverty in 2007, of which 2.3m are vulnerable (FPAG 2008, p5).
22. With the rate of fuel price increases, more households are slipping into fuel poverty than are being removed from it by present policies.

Targeting

23. Due to poor targeting, money, ostensibly for the fuel poor, is being spent on the non-fuel-poor, mostly through Winter Fuel Payments. For instance, in 2005, 50% of all the fuel poor were pensioners, but these households only represented 12% of pensioners. Hence, focusing on pensioners does tackle fuel poverty, but 88% of the expenditure is going on non-fuel poor households.
24. The Government spends over £2bn pa on Winter Fuel Payments in Great Britain (approx £1.7bn in England) and this is rising because of announcements in Budget 2008. As the fuel poor only spend 10% of their income on fuel (by definition), they will only use £10 out of every £100 given as Winter Fuel Payments on their fuel bills. Thus, 1.2% of the £1.7bn is actually spent on the fuel

bills of the fuel poor in England (12% of households spent 10% of it on fuel). Much better targeting of this money is a first priority or it should no longer be identified as part of fuel poverty policy.

25. There are similar problems with the targeting of the energy efficiency programmes: there is a limited relationship between the 'Priority Group' (for CERT), the 'vulnerable' (for Warm Front) and the fuel poor. As a result, in 2005, under 20% of the Government's fuel poverty energy efficiency expenditure actually went to fuel poor households.
26. At the same time, for 40% of fuel poor households (those not on the 'passport benefits') there is no identified help. With luck, they may receive assistance, for instance through Winter Fuel Payments if they are a pensioner.
27. There are real difficulties in identifying the household that is in fuel poverty and even more difficult to identify those at risk. The suggestion is that the focus of policy switches from giving support for poor people to investing in energy inefficient properties: the worst houses are disproportionately occupied by the fuel poor.
28. Social tariffs and Benefit Entitlement Checks are important contributions to the short-term, temporary alleviation of fuel poverty, but they must be seen as an adjunct to energy efficiency investment. With the present situation, any help that can be given to the fuel poor on fuel prices and incomes should be retained, for instance through Benefit Entitlement Checks that result in increased income.
29. Data-sharing on people's circumstances between the public and private sector should be minimized, because of the risk of the utilities developing different – and disadvantageous – policies that can be targeted on claimants. This is a clear risk, once a group can be identified, as has been shown with the treatment of pre-payment meter (ppm) users: the differential between ppm and the standard tariff has grown substantially, and without apparent justification, in the last few years. Conversely, data on efficiency of properties should be widely and publicly available - this is not yet happening (Boardman 2007; Banks 2008).
30. Any programme that is funded by the utilities is likely to be using money raised from its residential customers, including the fuel poor. As the fuel poor are spending about twice as much of their weekly income on fuel as better-off households, a disproportionate contribution (in terms of impact on the household budget) has come from the fuel poor. Utility-funded programmes risk exacerbating fuel poverty. This is why the benefits of utility programmes should be disproportionately aimed at the fuel poor, so that, over time, the poorest households are compensated for this excess contribution.
31. In an ideal world, all the funding for fuel poverty programmes would come out of taxation, as few of the fuel poor pay income tax. This taxation could include contributions from the utilities (eg from EU Emission Trading Scheme auctions), provided it was confirmed that this did not put up residential fuel prices. The aim must be to ensure that no funding stream causes increased fuel poverty.

Smart meters and utility programmes

32. The installation of smart meters (for both electricity and gas) could provide benefits for the fuel poor, by removing the fear of unexpected, large bills, based on estimates. The other clear benefit comes from clear display units, which are initially independent of, but eventually linked to, the smart meter. These should

provide information on how much energy is being consumed and, how much has been spent since the last payment. This educative tool was to have been provided, for free, to all households from April 2008 (DTI 2007, p11).

33. Smart metering should assist the fuel poor, for instance by eradicating the surcharge for prepayment meters, as with the keypad in Northern Ireland.
34. The Suppliers Obligation from 2011 must ensure that the fuel poor are more than compensated for the contribution that they have to make through their utility bills. This should recognize also the costs being added to fuel bills by the EU Emissions Trading Scheme and the Renewables Obligation. These, like CERT, are paid by all households and could exceed the benefit of social tariffs for an individual household.

Energy efficiency

35. A renewed focus on improving the energy efficiency of the homes of the fuel poor must start from identifying the worst houses and treating these, so that the occupants are no longer in fuel poverty. This is a new approach for two reasons. The fuel poverty programmes, at the moment:
 - are not targeted on the worst homes;
 - mainly focus on installing a set number of measures. They do not have to bring the household out of fuel poverty.
36. This new approach would fit with existing initiatives:
 - the definition of a healthy home comes from the Housing, Health and Safety Rating System (HHSRS), introduced in April 2006, to replace the previous definition of an unfit home. The HHSRS standard for a Category 1 Hazard of Excess Cold used to be equivalent to a SAP 35 (2001 procedure¹)(DCLG 2006, para 5.27). The average fuel poor home was about SAP 35 in 2004 (DTI 2006, p6). Therefore about half the fuel poor homes would have failed the HHSRS in 2004;
 - To ensure that there is a minimal risk of any household being in fuel poverty required, in 2004, a SAP 65 (2001 scale) (DEFRA 2004, p4). The increased fuel prices and the change from 2001 SAP to 2005 SAP, means that a new fuel poverty threshold is required.
37. The suggestion is that, at today's fuel prices, a home with an energy efficiency level of SAP 81 (2005 procedure) would ensure that the majority of households would not be in fuel poverty if they lived in it.
38. CERT and Warm Front provide similar measures to similar households: they are largely competing with each other. Whereas there are no programmes to help about 40% of the fuel poor. A better integration of the two approaches and the provision of help for all the fuel poor should be the aim.
39. One way of integrating all the schemes would be to give more responsibility to local authorities and/or the Homes and Communities Agency, together with the appropriate funds. At the moment, there is no requirement on any of the major actors (other than Government) to ensure the fuel poverty targets are reached.

¹ The Standard Assessment Procedure (SAP) is the Government's preferred method for assessing the energy efficiency of a property in terms of its heating, hot water and fixed lighting. It does not include energy (mainly electricity) for other lights and all appliances and cooking. The 2001 SAP used rankings from 1-120. In 2005, the scale was changed and only goes up to 100. The two scales are difficult to compare, but are roughly comparable below SAP 65.

40. The level of investment required is several times present expenditure. To achieve the 2016 target:

- 100% of the fuel poor have to have been brought out of fuel poverty by 2016, ie in the next 8 years.
- Therefore, 50% of the fuel poor should have been brought out of fuel poverty by the half-way stage of 2012.
- The proposal in *Home Truths* (Boardman 2007, p88) is that each local authority declares a Low Carbon Zone, in which 50% of its fuel poor live and that all the properties in this LCZ are brought up to a standard of SAP 81, by 2012.
- This deals with the first half of the fuel poor and builds on the experience of Warm Zones. The Government's newly proposed Community Energy Saving Plan takes the same area-based, street-by-street approach, but for only about 900 households in each of 100 local authorities.
- To identify the other 50% of fuel poor homes will require each local authority by 2012 to assemble an address-specific energy-efficiency database of all the residential properties in their area based on and extending the Energy Performance Certificate categories (A-G). As the fuel poor live in the least energy efficient properties, the local authority has four years (2013-2016) to ensure that the worst properties are improved, so that none of the occupants are in fuel poverty. This stage will be more difficult and expensive, as the properties are more distributed than in the first stage, so there will be less economies of scale.
- A conservative estimate is that each fuel poor house could be brought up to a SAP 81 as a result of £7,500 of expenditure (Boardman 2007, p89). This does assume both economies of scale from doing adjacent properties and from doing several measures at the same time, so, for instance, the same scaffolding is used for both solid wall insulation and putting solar hot water panels on the roof.
- If there are 5m houses to be treated, over eight years, this would be an annual expenditure of £4.7bn assuming no administrative costs and 100% targeting on the fuel poor. In reality, neither of these can occur, so the costs would be higher.
- This is about four times more than current expenditure on energy efficiency improvements by the Government and utilities combined, but only 50% more than the cost of all fuel poverty programmes (including Winter Fuel Payments).

41. Several policies contribute to this: A second **Decent Homes Standard** should be issued that requires all social housing to reach a standard of SAP 81 (2005) by 2016. An immediate focus on social housing will ensure that the installers are properly trained to deliver low carbon buildings, before going out to the wider community.

42. The main issue with **new homes** is to make sure that they are available for the fuel poor, specifically through social housing. The second issue is to ensure that they are built to the standard required by the Building Regulations and not to some, lower standard, because these Regulations are not enforced properly.

43. **Hard-to-treat**, hard-to-reach (rural) properties pose special challenges, but there is a variety of options available to bring these up to a SAP 81, including (in addition to mainstream measures):

- Biomass-fired systems, both central heating and individual stoves, in rural areas;

- District combined heat and power for Victorian terraces in the centre of towns;
- Solid wall insulation, preferably external;
- Solar hot water systems;
- The installation of porches.

Microgeneration

44. To get to a SAP 81 will require most properties to have at least one low or zero carbon (LZC) installation. The micro-generation technologies provide different combinations of heating and electricity (Table 1) at different levels of carbon intensity. The objective should be, as ever, to improve the energy efficiency of the property first and make demand for heating as low as possible. Those LZC that provide hot water for washing or electricity for lights and appliances are not linked to the energy efficiency of the fabric, but to the energy efficiency of other pieces of equipment (eg lights, fridges and boilers).

Table 1: Low and zero carbon technologies

	Heat only	Heat and electricity	Electricity only
Low carbon	Heat pumps	Gas-fired: CHP in community heating Micro-CHP (Stirling engines) Micro-CHP (fuel cells)	
Zero net carbon	Solar hot water Biomass	Energy from waste or biomass CHP in community heating Biomass in micro-CHP (eg Stirling engines)	Photovoltaics Wind

Source: Boardman et al (2005), p63

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