



APSE Briefing 18/49 – Committee on Fuel Poverty: 3rd Annual Report 2018

Summary

The Committee on Fuel Poverty third annual report provides insight into progress towards the Government's 2015 fuel poverty strategy, suggests recommendations to deliver the 2020 and 2025 milestones and the 2030 target, and provides a forward look towards the areas that the Committee on Fuel Poverty will focus on in 2019.

A prominent message highlighted in the report is that while some progress has been made towards reducing the fuel poverty gap and improving the energy efficiency of fuel poor homes, there is still a lot to do in order to achieve the targets set by the 2015 fuel poverty strategy.

1. Introduction

The Committee on Fuel Poverty (CFP) are an advisory Public Body sponsored by the Department for Business, Energy & Industrial Strategy (BEIS). The overall purpose of the CFP is to monitor the Government's progress on the 2015 fuel poverty strategy and provide independent, expert advice to ensure that the milestones and target are met.

Throughout this report the term 'fuel poor households' is used. In all cases of this the CFP are referring to the 2.55 million 'Low Income High Cost' (LIHC) households, which is the official measure of fuel poverty in England.

This report is the CFP's third annual report, which summarises their work in 2018, provides an update on progress, sets out recommendations for Government action and outlines plans for 2019.

2. Progress on the 2015 Fuel Poverty Strategy

The 2015 fuel poverty strategy was developed in order to meet the Government's fuel poverty target, which was set in 2014. In this report, the baseline used to measure progress is the BEIS Annual Fuel Poverty Statistics, published in 2014. The statistics published in 2014 show the status in 2012, due to a 2-year lag time.

Progress on reducing the fuel poverty gap has been measured using the latest BEIS Fuel Poverty Statistics published in June 2018. This shows that over the past 4 years the aggregate fuel poverty gap has reduced

by 7% and the average gap by 14%. The report describes this as encouraging, due to progress being made in closing the gaps despite the increase in energy prices across this period.

The number of households living in fuel poverty has ranged between 10% and 12% over the past decade, with an upwards trend in both actual households in fuel poverty and the percentage of households in fuel poverty. The LIHC indicator of fuel poverty shows that in 2014 there were 2.36 million households living in fuel poverty and in 2016 there were 2.55 million.

Another target included in the 2015 Fuel Poverty Strategy is for 'as many fuel poor households as reasonably practicable to achieve a minimum energy efficiency rating of Band C by 2030.' The strategy also contains 2020/25 Band E/D milestones.

Each set of BEIS annual fuel poverty statistics include a 2-year forecast of future progress towards the milestones and target. For example, the report published in 2018 uses 2016 data and includes projections of the positions in 2017 and 2018. These projections include the estimated impact of existing Government schemes, such as the March 2017 to October 2018 ECO transition programme. The graph below (Figure 1) shows the recent and projected progress towards the percentage of fuel poverty homes at Band C, D and E.

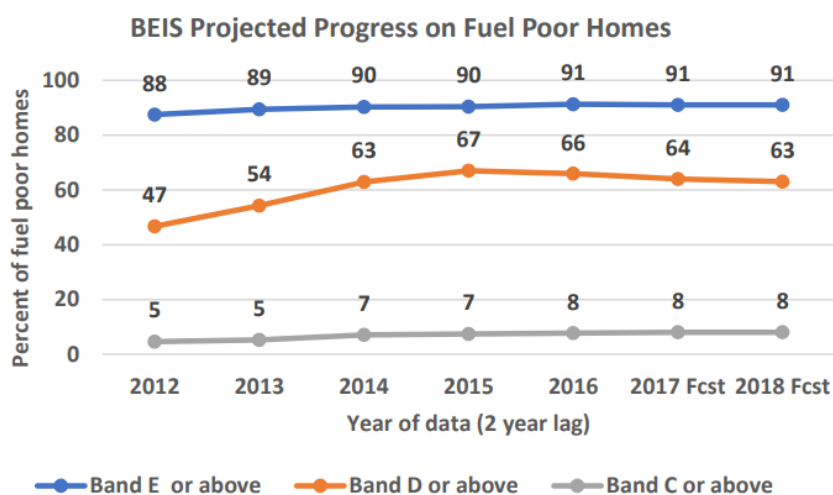


Figure 1- A graph showing recent and projected progress towards the percentage of fuel poor homes at Band E and above (Source: Committee on Fuel Poverty, Third Annual Report)

Figure 1 shows that recent and projected progress towards upgrading to Band E or above has been slow and is flat-lining. The report outlines that little progress is being made to improve properties to Band C or higher. Despite progress towards Band D properties being made between 2012 and 2015, the percentage of Band D or above properties is now declining.

The report highlights that in the CFP 2017 annual report two main recommendations were made to help ensure the Government meets the 2020 milestone. One of these recommendations was to focus the October 2018 to March 2022 Energy Company Obligation (ECO3) programme on upgrading the energy efficiency levels of households in fuel poverty, with an emphasis on Bands F and G properties.

ECO3 focuses on the Affordable Warmth Obligation and therefore has an eligible target group of about 6.6 million low income and vulnerable households. The report outlines that of this eligible group only around 30% are living in fuel poverty and it has a focus on reaching those most in need in Band F/G fuel poor homes. The report predicts that over the 3.5-year programme to March 2022, it will only lower the

percentage of fuel poor homes in Band F/G by 1%, but will have larger impacts on improving Band D and E fuel poor properties.

The final ECO3 decision document introduces uplifts of F and G rated owner-occupied properties in the Local Authority flexible eligibility. Under the ECO regulations local authorities can set their own eligibility criteria for funding for domestic energy efficiency measures, which is aimed at those within a locality most likely to be in fuel poverty. Energy companies can then spend up to 10% of their full obligation within these criteria.

The second recommendation that the CFP made in their 2017 Annual Report was to ensure that the Energy Efficiency (Private Rented Property England and Wales) Regulations 2015 (PRS Regulation) will be effective by introducing a £5,000 capped obligation on landlords to pay for energy efficiency upgrades of their Band F/G properties to Band E. The report outlines that around 60% of fuel poor households are in the rented sector, therefore the CFP believe that "as landlords run a business, they should be held accountable to rent out properties that are affordable to heat."

The report highlights that the Government has amended the PRS Regulations to make them more effective and announced a higher landlords' cost cap, which will upgrade 48% of F/G homes to Band E.

However, in the report the CFP recommend that this will not change the fact that a new Clean Growth Fuel Poverty Challenge Fund will be required to meet the 2020 and 2025 milestones, although the funding requirements will be slightly lowered due to the improved PRS Regulations increasing energy efficiency of fuel poor households in the rented sector.

The CFP's estimate of the required funding to achieve the fuel poverty strategy is revised each year, based on latest projections of progress from the BEIS statistics. In the 2017 CFP report a £15.1 billion funding gap was identified and it was recommended that funding is provided through a mix of obligations, subsidy, grants, regulation and potentially private finance. The 2018 report outlines that the current estimate of the funding gap has increased to £17.1 billion as a result of slower than forecast progress and the increased number of fuel poor homes.

Looking beyond ECO3 and the PRS Regulations, the report also welcomes the publication of the Government's Clean Growth Strategy (CGS). The CGS includes policies and proposals that provide firm foundations on which to deliver the fuel poverty target. The CGS proposals that are consistent with the CFP 2017 report recommendations are summarised below:

- Reducing carbon emissions from homes while ensuring that everyone has a home that is comfortable, healthy and affordable to run
- Wanting all fuel poor homes to be upgraded to EPC Band C by 2030
- Extending support for home energy efficiency out to 2028 at least at the current level of ECO funding
- Looking at a long-term trajectory for energy performance standards across the private rented sector, with the aim of as many private rented homes as possible being upgraded to EPC Band C by 2030, where practical, cost-effective and affordable. Government will also look at how social housing can meet similar standards on the same timetable.

The report estimates the impacts that the envisaged CGS programmes could have on closing the funding gaps, with the assumptions that:

- ECO funding is extended to 2028 and that this policy adopts the same approach to low income and vulnerable households as ECO3,

- An extension of the Band E PRS Regulations to also include local authority and housing association homes. The CFP have used the current proposed PRS amendment efficiency of a 30% upgrade of rented homes to Band D in 2025 and Band C in 2030.

With these assumptions, the 2025 Band D milestone funding gap reduces from £3.3 billion to £2.4 billion and the 2030 target gap from £10.9 billion to £8.1 billion.

In the report the CFP also welcome the National Infrastructure Commission's 'National Infrastructure Assessment' (NIA report) that supports funding and upgrades to energy efficiency levels of social housing. The NIA report identifies the social rented sector as an immediate priority to meet government's own stated ambition of ensuring social rented properties reach at least EPC Band C by 2030.

3. Recommendations to deliver the 2020 and 2025 milestones and the 2030 target

The report highlights that even with the implementation of ECO3 and PRS regulations there is still a funding gap of £1 billion if the 2020 milestone is met. Therefore, the first recommendation to meet the 2020 milestone is:

- **Recommendation 1** - To deliver the 2020 Band E milestone, Treasury should allocate £1.0 billion funding to a new 'Clean Growth Challenge Fund' for 2019-2021.

The report outlines that to date, not everything reasonably practicable has been done to achieve the 2020 milestone, in particular energy efficiency programmes have not been targeted at the one third of fuel poor Band F and G homes in villages, rural and isolated locations. Further recommendations for achieving the 2020 milestone are as follows:

- **Recommendation 2** - Maximum use of the 25% Flex scheme in ECO3 should be made to reach fuel poor households living in Band F and G properties and the fuel poor who are not claiming means tested benefits. Flex performance in these areas should be carefully monitored and, where necessary, new guidance should be issued to local authorities to ensure improved targeting, especially of households who are not in receipt of benefits.
- **Recommendation 3** - Enforcement of health, wellbeing, energy efficiency and safety-related regulations in the privately rented sector should be significantly enhanced and private landlords should be incentivised to invest in the necessary measures.

The report outlines that the current statutory licencing scheme for Houses in Multiple Occupation (HMOs) managed through local authorities is insufficient in its scope to identify all landlords covered by the PRS Regulations. In 2017 the CFP recommended a mandatory landlord registration scheme and are continuing research into how this would work.

The report highlights that the CFP believe that the enforcement of privately rented sector regulations to protect households potentially at risk from cold homes should be enhanced and therefore continue to recommend:

- **Recommendation 4** - The Landlord's Energy Savings Allowance – a former tax allowance on energy saving expenditure by landlords – is re-introduced.
- **Recommendation 5** - The HHSRS guideline scores for the health and safety impact of cold homes on children and pensioners are reviewed (and updated if necessary) in light of the latest studies on health effects from cold homes.

As shown earlier in this briefing the report has identified funding gaps of £2.4 billion to achieve the 2025 milestone and £8.1 billion to achieve the 2030 target. The CFP believes that where Government funds are required, the first source of funds should be from optimising existing budgets and that opportunities should be sought to leverage funds from other sources.

The report highlights a need for a better focus for the Winter Fuel Payment budget, due to its initial aim being to tackle fuel poverty amongst pensioners who had some of the lowest average after housing cost incomes of all age groups, however, since then average pensioner incomes have risen. Despite this, all pensioners currently receive a payment between £100 and £300 per year, regardless of their income status. Therefore, the report recommends:

- **Recommendation 6** - The Winter Fuel Payment programme is focused on helping those households in all age groups who are most in need to pay their energy bills and that the resultant surplus funds are used in new programmes to install energy efficiency measures in fuel poor homes.

To help achieve the 2025 milestone and 2030 target, the report also recommends that the following should be factored into any Government spending plans:

- **Recommendation 7** - The Clean Growth Strategy proposal for continuing a home energy efficiency programme is focused on fuel poor households and that Government considers the most appropriate mechanism for maximising progress towards the 2025 Milestone and 2030 target.

The remaining recommendations to achieve the milestones and target are as follows:

- **Recommendation 8** - The PRS Regulations are extended to include achieving Band D in 2025 and Band C in 2030 and that the cap on landlords' expenditure is reviewed and increased to achieve the target.
- **Recommendation 9** - Government acts on the National Infrastructure Commission recommendation to improve social housing energy efficiency to Band C by 2030 through introducing new targets and incentives for social landlords to make improvements as part of their business plans.
- **Recommendation 10** - To deliver the 2025 Band D milestone, Treasury should allocate £1.8 billion funding to continue the new 'Clean Growth Challenge Fund' for 2022-2025.
- **Recommendation 11** - Government should continue to identify innovative ways to achieve Band C at lower costs.

4. Assisting fuel poor households to pay energy bills and developing tools to improve the targeting accuracy and efficiency of providing assistance to fuel poor households

The 2015 Fuel Poverty Strategy is based upon the premise that energy efficiency upgrades are the most effective way to support those in fuel poverty. However, the strategy recognises that upgrading housing stock takes time and it is important that schemes are put in place in the meantime to assist households to pay their bills and keep warm. Therefore, the Government has schemes such as the Warm Home Discount (WHD), Cold Weather Payments (CWP) and Winter Fuel Payments (WFP). However, the report identifies that these programmes are poorly targeted at those most in need, with only around 10% of the annual winter expenditure, worth over £2bn, being received by fuel poor households. Therefore, the report recommends that:

- **Recommendation 12** - Until the WFP programme is significantly better targeted at assisting all households in fuel poverty, BEIS should work with other stakeholders to take the necessary steps to ensure that households in fuel poverty receive at least the equivalent of assistance to pay their fuel bills as pensioners.
- **Recommendation 13** – The CFP continue to recommend that Government improves the WHD programme so that it better targets fuel poor households, and:
 - the participation threshold for energy suppliers be lowered to those with more than 50,000 customer accounts
 - park home residents should be made aware of support available through the industry initiatives part of WHD.

The report outlines that in order to improve the targeting of assistance to fuel poor households sophisticated tools to identify fuel poor households need to be developed.

LHC uses a mix of adjusted household income, housing energy efficiency and estimated fuel need as the basis for defining whether or not a household is fuel poor. However, the report highlights that this method of identifying fuel poor households is not easy to operationalise, as without accurate information on addresses of fuel poor households high search costs are incurred.

Current policies (ECO, WHD, WFP and CWP) not only have a poor overall focus on the fuel poor, but they are also highly dependent on using receipt of welfare benefits as criteria for eligibility. Statistics published by BEIS in 2018 show that 6.4 million households are in receipt of benefits, of which 1.35 million households are fuel poor, constituting only 53% of fuel poor households in England.

The Digital Economy Act 2017 came into force in June 2018; the report outlines that the CFP strongly support the BEIS plan to utilise this legislation to develop data sets that identify the addresses of fuel poor homes and thereby better target policies such as WHD.

- **Recommendation 14** - We strongly recommend that BEIS identifies how the Data Sharing legislation and proxies can be used to better target assistance to fuel poor households who are not in receipt of benefits. We accept however that due to incomplete data sets, it will not be possible to use Government data to identify all fuel poor households.
- **Recommendation 15** – The CFP recommend that local community groups and charities are supported financially where appropriate, in their efforts to provide detailed, personal and relevant energy advice on behaviour changes, potential energy efficiency improvements and access to support from energy companies or their agents.
- **Recommendation 16** - We recommended that benefits advice and support is included in future fuel poverty programmes.

5. Other issues explored in 2018

The CFP have also been working with stakeholders and BEIS on other important aspects of fuel poverty.

Impact of fuel poverty on health

The report explores the reasons the health sector has not been uniformly following the National Institute for Health and Care Excellence (NICE) guidance and Quality Standards: 'Preventing excess winter deaths and illness associated with cold homes.'

The CFP are encouraged by a report from National Energy Action (NEA) on the implementation of this NICE guidance which indicated that many Health and Wellbeing Boards are taking action on fuel poverty under

their Cold Weather Plans. However, a further report by NEA 'Under One Roof' commissioned by BEIS and Liverpool City Council has subsequently revealed that there is a lack of recurrent funding to support local action and recommends that new powers are given to Health and Wellbeing Boards to enforce housing improvements.

The report identifies a possible reason for this being, that there is currently no Government model that can calculate the reduction in financial costs to the health sector that result from people living in better insulated and warmer homes. However, BEIS are currently undertaking a Health Impact of Energy Efficiency Measures (HIDEEM) modelling project, which aims to quantify any link between cold homes and visits to hospital from households in England.

- **Recommendation 17** - High priority is given to the BEIS work to model the reduction in health and social costs that could result from enhancing the energy efficiency of fuel poor homes. Once agreement to a model is obtained across Government departments, the financial value of health benefits should be taken into account for programmes that assist householders to pay their energy bills or that enhance the energy efficiency of their homes.

Assessing the impact of churn in fuel poor households

The report suggests there is considerable churn in the housing market (i.e. people moving house) and movements in household income, meaning people may move in and out of fuel poverty over time. The CFP note the issue of churn but, based on the work that underpins the fuel poverty strategy, the report outlines that assistance should still be prioritised to those in the deepest levels of fuel poverty.

- **Recommendation 18** - We recommend that BEIS carries out detailed analysis on the issue of churn of households in and out of fuel poverty, to validate their contention that the best way to address churn is to open ECO3 eligibility to all low income and vulnerable households, rather than those most in need.

Assessing the impact of energy markets on fuel poor households

The report highlights that the way households in fuel poverty interact with the energy market has an ongoing and important part to play in working towards lifting them out of fuel poverty.

The GB energy market has continued to change dramatically over the last year, with the market now containing over 60 active licenced suppliers and 20% of customers now being served by suppliers outside of the 6 major companies.

The report outlines that over 5 million customers switched supplier in 2017, generally to move to fixed term tariffs and off standard variable tariffs. However, many more customers are not able to access new tariffs, or do not trust the market, or for reasons such as debt believe they would be unable to move supplier and therefore remain on more expensive tariffs.

In order to address the issue of a lack of engagement in the energy market, Ofgem and the Government have introduced further market interventions. The CFP support moves by Ofgem to make it both easier and faster for consumers to access the energy market and move to more suitable tariffs. The report recommends that Ofgem must ensure that suppliers to whom it is encouraging customers to switch offer high levels of customer service, and clear support for vulnerable and potentially fuel poor customers, as well as sustainable business models. It is important that customers are equipped with the knowledge of what different suppliers offer when deciding to switch.

The roll out of smart meters remains a key focus of the market and is important for assisting customers in understanding how they are using their energy and how they may be able to save energy.

The report highlights that there is a lack of data available to evaluate how the above market changes will benefit or be to the detriment of households in fuel poverty. The CFP therefore recommend:

- **Recommendation 19** - Ofgem and BEIS should gather quantitative data on how market interventions and new technology will financially benefit or disadvantage households in fuel poverty so that the resultant impact on fuel poverty can be calculated.

6. Forward look

Over the next year the Committee on Fuel Poverty will be working on the following themes:

- Supporting the design and implementation of the next generation of energy efficiency programmes:
- Improving the identification of fuel poor households
- Enforcing regulations
- Improving ability to pay fuel bills
- Understanding distributional impacts in the energy market
- Understanding the potential roles of Network companies

APSE Energy Comment

Fuel poverty remains a widespread problem and one that local authorities are heavily engaged with trying to alleviate. From investing in energy efficiency and behaviour change projects, to launching cheaper local energy tariffs and encouraging supplier switching, their role involves highlighting the problem, addressing the causes, providing solutions and lobbying for action.

The scale of fuel poverty is made clear in this report and the EPC banding system for energy efficiency in properties is referred to heavily as a method of tracking progress. This is a well-established approach and most local authority properties score well on it with the private rented sector struggling to invest properly.

There is a focus on identifying the fuel poor within the report, which highlights the need for local authorities to keep accurate records regarding their housing stock and their tenants. Data will be key to ensuring funding reaches the most in need and has the greatest impact in reducing the knock-on costs of fuel poverty.

Under the current system of housing supply and regulation, with an increasing reliance on the private rented sector, it is unlikely that there will be adequate funding or a willingness to fully address this problem. It is important that all involved appreciate that investing to improve properties has a beneficial impact on both current and subsequently occupiers of a property including reducing energy bills. Ultimately tackling fuel poverty should be considered alongside the more holistic role of local councils having greater capacity to meet demands for social and affordable housing and reshaping housing markets at a local level to recalibrate housing supply to provide high quality and energy efficient homes.

Local authorities must attempt to make the most of funding opportunities such as ECO3 as well as engaging with energy suppliers, partners and residents to ensure funding is fully subscribed and spent. Engagement with the big six energy suppliers especially through the LA Flex element is vital for the benefit of the fuel poor.

A link to an ECO publication by APSE Energy is found [here](#). Specific details regarding ECO are likely to change with the implementation of ECO3.

APSE Energy provides further information about developments in the energy sector. For more information about joining APSE Energy please contact Phil Brennan, Head of APSE Energy, 0161 772 1810.

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