









The UK Fuel Poverty Strategy

4th ANNUAL
PROGRESS REPORT

2006

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Ministerial Foreword

As we publish the Fourth Annual Progress Report on the UK Fuel Poverty Strategy, this is an apt time for us all to not only reflect on what has been achieved, but also to set out the significant challenges that lie ahead; challenges that can only be met by working together. The UK Fuel Poverty Strategy was the first of its type in the world, and the Government remains committed to achieving each of the targets that it set out. In so doing we aim to eradicate the range of consequences of fuel poverty in a sustainable way.

The number of households in fuel poverty in the UK in 2004 remained at two million, with one and a half million of those in the vulnerable category. These figures are down from six and a half million and five million respectively in 1996.

A great deal has been achieved. The overall number of households in fuel poverty in England in 2004 remained at 1.2 million, and the number of vulnerable households remained at 1.0 million. These levels are down from five million and four million respectively in 1996 and show that extremely creditable progress has been made.

Alongside this though, we are also fully aware that the largest energy price rises have occurred since this period. The impact of recent rises on the number of households in fuel poverty has yet to show up in the statistics, but as this report outlines, we have not been complacent, and have continued to work hard to set out the implications of these rises for our targets. To this end, the Chancellor's announcement in the 2005 Pre-Budget Report that an additional £300 million would be made available to tackle fuel poverty across the UK demonstrated the Government's ongoing commitment to tackling fuel poverty and meeting the challenges posed by rising energy prices head on.

This report offers the first opportunity to reflect on the changes made to the Warm Front Scheme in England. The initial signs are certainly encouraging, in terms of the Scheme's increased impact on tackling the most vulnerable households at risk of fuel poverty. Information is also available on the range of schemes and programmes in place to tackle fuel poverty across the UK, alongside more detailed information on other action taken over the last year in each of the devolved nations.

The reductions in fuel poverty that have been achieved to date would not, of course, have been possible without the continued commitment of our partners within and outside of Government. Many of our key stakeholders are represented on the Fuel Poverty Advisory Group in England, a body to whom we remain indebted for their collective energy, experience and expertise. We have taken on board the recommendations in their annual report and respond to each of them in turn here.

For the first time, we also have reports from similar advisory bodies in the devolved administrations, and are also grateful to them for their input.

We will not achieve our fuel poverty goals alone. Active input from all of our partners – from Government Departments, energy suppliers, voluntary groups and energy efficiency bodies alike – is required.

Responding to rising energy prices, reaching the hardest to reach consumers and treating the most difficult properties to treat are significant hurdles in the race to achieve our goals. However, we remain firmly committed to building on the progress already made, to stepping up our efforts to identify, reach and assist those most in need and to leading all of our partners in the drive to eradicate fuel poverty. The task is significant, but it remains ours to achieve.



I. P. Pearson

IAN PEARSON
MINISTER OF STATE
CLIMATE CHANGE & ENVIRONMENT
Defra



Malcolm Wicks

MALCOLM WICKS
MINISTER OF STATE
ENERGY
DTI

This is the fourth annual progress report on the UK Fuel Poverty Strategy. It presents positive news over figures and funding, growing evidence of increased engagement in tackling fuel poverty and a snapshot of the UK-wide situation. All of this appears alongside a realistic assessment of the impact of energy price rises and the outlook for the future, both in the medium and long-term.

The report provides an update on the actions taken over the last twelve months, across and outside of Government, to tackle fuel poverty. We explore progress made by those schemes, programmes and policies already in place, alongside a breakdown of the new initiatives brought to bear over the last year. The report offers us the first opportunity to look at the new phase of the Warm Front Scheme in England, and to explore what the additional funding will mean for the future. Progress and developments in the Schemes across the devolved nations are also considered.

The fuel poverty figures for 2004 are presented here, and the indications are that the good progress made to date has not yet begun to reverse, despite the fact that energy prices in 2004 were greater than in 2003. The number of vulnerable

households in fuel poverty in England in 2004 remained at 1.0 million¹. This figure is down from four million in 1996. The overall number of households in fuel poverty in England also remained at a similar level of 1.2 million. The UK-wide figures remained broadly the same, with two million households in fuel poverty overall and one and a half million of those in the vulnerable category.

However, we are aware that as we champion the progress made in reducing the number of vulnerable households in fuel poverty, the current situation on energy prices means that our fuel poverty targets are being placed under serious pressure. We are acutely aware that the impact of price rises over the last two years on the number of households in fuel poverty has yet to be fully realised. Later in this report we set out the results of detailed modelling work to determine what the implications of recent energy price rises will be for our 2010 target in England. There are significant challenges ahead, especially in terms of assisting fuel poor homes off the gas network and addressing those households in fuel poverty on very low incomes. In the context of the Energy Review and elsewhere, the Government will continue to look to translate these conclusions into policy decisions.

¹ Detailed breakdowns and unrounded figures are available at www.dti.gov.uk/energy/fuel-poverty/Strategy/index.html

We have continued to work closely with energy suppliers over the last year, and are grateful for their collective willingness to engage with the issues around fuel poverty, as is demonstrated in the number of supplier initiatives, including the new Home Heat Helpline, covered in the report.

The Fuel Poverty Advisory Group in England published their Fourth Annual Report in March of this year². This contained a number of recommendations for Government. We are grateful for the Group's continued input and are happy to be able to respond to their

recommendations later in this report. The equally valuable and energetic role played by the other advisory bodies across the UK is also covered.

Finally, this report is accompanied by a series of internet-based annexes³ which provide more detail on the progress made in tackling fuel poverty by both Government and industry. These include more in-depth statistics on the demographic, geographic and socio-economic breakdowns of fuel poverty and a broader outline of the actions taken in this area by energy suppliers across the UK.

² <http://www.dti.gov.uk/energy/fuel-poverty/fpag/index.html>

³ <http://www.dti.gov.uk/energy/fuel-poverty/strategy/index.html>

Chapter I

Our Commitments

UK

- 1.1 The aim of the Government and the Devolved Administrations remains the eradication of fuel poverty, as detailed in the UK Fuel Poverty Strategy⁴ published in November 2001; a commitment reaffirmed in 2003's Energy White Paper⁵. Separate targets exist in England and each of the Devolved Administrations, with the overall aim being that no household in the UK should live in fuel poverty by 2018.

England

- 1.2 Our aim in England, restated in *Fuel Poverty in England: The Government's Plan for Action*⁶ is, as far as reasonably practicable, to eradicate fuel poverty in vulnerable households by 2010, with a vulnerable household deemed to be one containing children, or those who are elderly, sick or disabled. Fuel poverty in other households will also be tackled as progress is made on these groups, with a target that by 22 November 2016, as far as reasonably practicable, no person in England should have to live in fuel poverty.
- 1.3 Two definitions of fuel poverty figures are used in England – the first (which is used to calculate progress towards the Strategy's targets) includes all benefits received, whilst the second excludes

Housing Benefit and Income Support for Mortgage Interest, and is used in order to enable historical comparison. Figures for the number of households in fuel poverty in England are provided on both definitions within this and previous Annual Reports.

Scotland

- 1.4 The Scottish Executive published *The Scottish Fuel Poverty Statement in August 2002*⁷. This sets out Scotland's overall objective for fuel poverty, which is to ensure that, so far as reasonably practicable, people are not living in fuel poverty in Scotland by November 2016.
- 1.5 The Scottish Executive is also committed to achieving a 30 per cent reduction in fuel poverty by 2006 based on the 2002 Scottish House Condition Survey.

Wales

- 1.6 As set out in the Fuel Poverty Commitment for Wales,⁸ the Welsh Assembly Government's target is that, as far as reasonably practicable, no household in Wales should be living in fuel poverty by 2018.

⁴ <http://www.dti.gov.uk/energy/fuel-poverty/strategy/index.html>

⁵ <http://www.dti.gov.uk/energy/group/index.html>

⁶ http://www.defra.gov.uk/environment/energy/fuelpov/pdf/fuelpov_actionplan.pdf

⁷ <http://www.scotland.gov.uk/library5/environment/sfps-00.asp>

⁸ <http://www.housing.wales.gov.uk/pdf.asp?a=d10>

1.7 The Commitment also sets out the Assembly Government's intention to assist 95,000 households through HEES (the Home Energy Efficiency Scheme) by March 2007. The additional funding of £10m for HEES announced by the Assembly Government in November 2005 will enable the Scheme to assist more households, but this target still looks challenging.

Northern Ireland

1.8 *Ending Fuel Poverty: A Strategy for Northern Ireland*⁹ sets out the aim, subject to necessary resources, to eliminate fuel poverty in vulnerable households by 2010, and in non-vulnerable households by 2016. The strategy recognises that the best way to tackle fuel poverty is through a partnership approach, which entails working with organisations that have an influence on income, fuel costs, energy provision and efficiency and with organisations from the voluntary and community sector.

1.9 The interim target for Northern Ireland is to have assisted at least 40,000 households in fuel poverty by 2006. However, to ensure a steady progress towards these challenging targets, milestone targets were set in terms of the number of vulnerable fuel poor households that we would hope to reach. The current target is to have reduced the number of vulnerable fuel poor by 71,000 households in 2006.

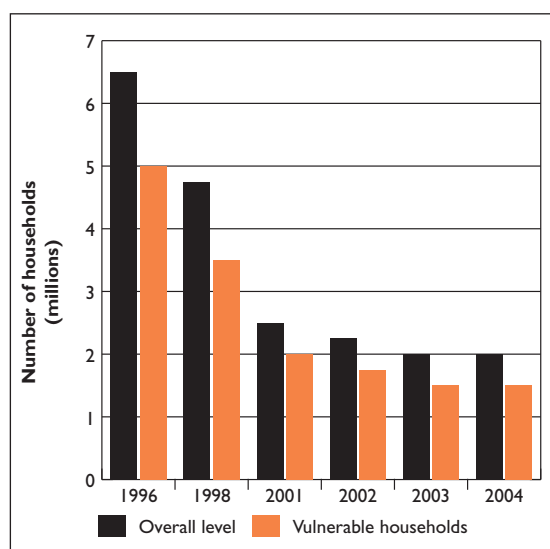
⁹ http://www.dsdni.gov.uk/ending_fuel_poverty_-_a_strategy_for_ni.pdf

Chapter 2

Progress to date

2.1 The latest estimates indicate that in 2004, there were approximately two million households in fuel poverty in the UK. One and a half million of those were vulnerable households. This continues to represent a substantial fall of around four and a half million households overall, and around three and a half million in the number of vulnerable households, from 1996 levels.

Number of households in fuel poverty in the UK, 1996–2004



2.2 Tracking fuel poverty on a UK-wide basis remains a complex issue, as figures are estimated on a country-by-country basis to different timescales and slightly different definitions.

Progress in England

2.3 The overall number of households in fuel poverty in England in 2004 remained at 1.2 million (around 6 per cent of all households), and the number of vulnerable households remained at 1.0 million. The average SAP (Standard Assessment Procedure) rating for households in England remained at 52 in 2004. For the reduction in overall fuel poverty between 1996 and 2003, well over half of the reduction was due to income improvements, with around a fifth of the reduction due to energy price reductions and a fifth of the reduction due to energy efficiency improvements, a sign that initiatives such as Warm Front are having a significant impact in taking people out of fuel poverty. Indications for 2004 are that the positive effect of energy price movements has lessened because of the increases in energy prices.

Number of households in fuel poverty in England, 1996 – 2004

(Bracketed figures are based on levels using the basic income definition)

	1996	1998	2001	2002	2003	2004
Total fuel poor	5.1 (5.5)	3.4 (4.0)	1.7 (2.3)	1.4 (2.0)	1.2 (1.5)	1.2 (1.4)
Vulnerable	4.0 (4.3)	2.8 (3.2)	1.4 (1.9)	1.2 (1.6)	1.0 (1.2)	1.0 (1.1)
Non-vulnerable	1.1 (1.2)	0.6 (0.8)	0.2 (0.4)	0.2 (0.4)	0.2 (0.3)	0.3 (0.3)
Social housing	Not available	Not available	Not available	0.3 (0.7)	0.2 (0.5)	0.2 (0.5)
Private housing	Not available	Not available	Not available	1.1 (1.3)	1.0 (1.0)	1.0 (0.9)

2.4 The conclusions of last year's Peer Review¹⁰ have been implemented in the preparation of these statistics. There have been further slight changes to the benefit and energy price imputation routines, however these will have a small effect on the overall statistics. DTI, with Ofgem, the Energy Retail Association and the Eaga Partnership Charitable Trust, are funding work by the Centre for Sustainable Energy and Bristol University on the development of a local area fuel poverty indicator. The indicator will be based on the English House Condition Survey and the census for use in targeting fuel poverty assistance. This work is due to be completed in early 2007.

Progress in Scotland

2.5 The Fuel Poverty in Scotland Report¹¹ was published in April 2004. It provides a detailed analysis of the information available on fuel poverty using the 2002 Scottish House Condition Survey. The report uses the definition of fuel poverty set out in the Scottish Fuel Poverty Statement 2002, except where otherwise stated. This definition is similar to that used in England and shows that the number of households in fuel poverty in 2002 was 286,000 (13 per cent). Due to the development of a new system of continuous data collection, these figures will next be updated in 2007.

2.6 The Fuel Poverty in Scotland report referred to above concludes that half of the change in fuel poverty since 1996 can be attributed to increases in household incomes; 35 per cent was due to decreasing fuel prices and 15 per cent to improvements in the energy efficiency of the home.

Progress in Wales

2.7 Analysis of the Living in Wales Survey shows that the total number of households in Wales in fuel poverty in 2004 was 130,000, which represented 11 per cent of Welsh households. The Assembly Government currently plans to report formally on progress against the Commitment in the summer of 2006, once the analysis of fuel poverty from the Living in Wales survey is complete.

¹⁰ <http://www.dti.gov.uk/energy/fuel-poverty/methodology-review/index.html>

¹¹ <http://www.shcs.gov.uk/pdfs/FPRReport.pdf>

Progress in Northern Ireland

- 2.8 In Northern Ireland, figures from the 2004 Interim House Condition Survey (IHCS), based on the methodology used to determine the original fuel poverty statistics in the 2001 House Condition Survey, show a substantial decrease in the number of households in fuel poverty from 203,300 (33 per cent of all households) in 2001 to 153,500 (24 per cent of all households) in 2004. This is a reduction of 49,800 fuel poor households and provides an indication of the success of the fuel poverty measures introduced by the Department of Social Development (DSD) during the period.
- 2.9 Fuel poverty in Northern Ireland remains highest in the owner occupied and private rented sectors. Households with solid fuel or electric heating systems are also more likely to be in fuel poverty than households with oil or mains gas heating, as are low-income households and households in rural areas. The 2004 IHCS found that Northern Ireland's total dwelling stock had an average SAP rating of 57, compared to a figure of 44 in 1996.
- 2.10 While the figures indicate a reduction in fuel poverty numbers across all age groups, many older people in Northern Ireland still live in fuel poverty. In households where the head of household was aged between 60 and 74, around 39 per cent are in fuel poverty while 42 per cent of households where the head of household was aged 75 or over are estimated to be in fuel poverty.

Chapter 3

Actions to tackle fuel poverty: Schemes and Initiatives

Warm Front (England)

- 3.1 Warm Front is the Government's main tool for tackling fuel poverty in the private sector in England. From the introduction of the Scheme in June 2000 to the end of December 2005, over 1.1 million households received assistance. The Scheme was boosted by an additional £140 million announced in the 2004 Spending Review, and augmented further by the Chancellor's announcement in the 2005 Pre-Budget Report that an additional £300 million is to be made available across the UK for tackling fuel poverty over the 2005-08 period, of which some £250m will be allocated to boost Warm Front in England. This means that funding for the Scheme during that period will be over £800 million. More information on the implications of the increased funding moving forward is available in Chapter 7.
- 3.2 The new phase of the Warm Front Scheme was launched in June 2005, incorporating the changes that were announced in *Fuel Poverty in England: The Government's Plan for Action*¹² and outlined in detail in last year's progress report¹³. The introduction of these changes has better equipped the Scheme to target and treat the most vulnerable households in a sustainable way. The Scheme is managed across England by Eaga Partnership¹⁴.
- 3.3 Between the launch of the new phase of the Scheme in June 2005 and the end of 2005, just under 70,000 households received assistance. Over half of these households contained a resident over 60, and a quarter of all households assisted were single pensioner households. Almost half of all households with children that received assistance under the Scheme had a child aged under four years old, and some 10 per cent of all households assisted were in privately rented accommodation. Significantly, by December 2005 the proportion of households assisted that had been taken to SAP 65 or above had risen to almost 40 per cent.
- 3.4 Warm Front has continued to offer Benefit Entitlement Checks to those ineligible for the Scheme at initial contact and, as part of the new phase of the Scheme, now offers Entitlement Checks to those whose properties do not meet a SAP rating of 65 or above after Warm Front intervention. As identified in *Fuel Poverty in England: The Government's Plan for Action*, this is the level at which households will be at minimal risk from fuel poverty.

¹² http://www.defra.gov.uk/environment/energy/fuelpov/pdf/fuelpov_actionplan.pdf

¹³ <http://www.dti.gov.uk/energy/fuel-poverty/ddu/index.html> – more information on this is available in Chapter 6 – 'The Way Forward'

¹⁴ More information on Eaga Partnership, and a breakdown of households assisted under Warm Front by Parliamentary Constituency, is available at www.eaga.co.uk

3.5 From the launch of the new phase of the Scheme in June 2005 to the end of 2005, more than 35,000 Checks were offered. Of those ineligible for the Scheme at the time of application, 43 per cent took up the offer of an Entitlement Check, with the average increase in income from a successful Check standing at over £1,200 per year. A similar proportion of those whose property could not be raised to SAP 65 took up the offer of a Check – evidence indicates that a range of customers who have received both a replacement boiler and a package of insulation measures from Warm Front occupied properties that still did not reach a level of SAP 65. There are several instances in which these householders have gone on to complete a Check and had over £40 per week (more than £2,000 per year) of additional income identified.

3.6 The new phase of the Scheme has also seen an increased emphasis on building strong partnerships in targeting and reaching those most in need and those least likely to apply for help. As Scheme Manager, Eaga have appointed project managers to develop specialised relationships in advancing engagement with black and minority ethnic groups, the health sector, disability organisations and rural communities. In addition to the wide range of networking activities already carried out, relationships have been garnered with partners such as the

Asian Health Authority, Primary Care Trusts, MIND, Mencap and rural community groups and publications, with the aim of targeting Warm Front assistance to those who need it most.

3.7 The Scheme has continued to focus on the level of service provided to the customer. For example the vendor rating system, set up as part of the controls to govern the allocation of Warm Front work to installers, is now also used to monitor the performance of installers in customers' homes. As a result, the top performing installers will receive a more significant proportion of work. In the small number of instances where customers are unhappy with the level of service provided by the Scheme, more than 90 per cent of complaints are resolved to the customer's satisfaction.

The Central Heating Programme and Warm Deal (Scotland)

3.8 From the launch of the Scheme to December 2005, the Central Heating Programme installed central heating systems in almost 65,000 homes. Along with the installation of heating systems, the Programme provides Warm Deal insulation measures (primarily loft and cavity wall insulation), and energy efficiency advice. The latest available information shows a predicted reduction in average annual fuel bills of £376.

3.9 In May 2004 the Central Heating Programme was extended to replace or upgrade partial or inefficient heating systems for people aged 80 or over in the private sector. This phase of the programme was complete in March 2006, with more than 6,000 systems installed.

3.10 The Warm Deal Programme has so far insulated almost 224,000 homes, around 10 per cent of Scotland's housing stock. The latest information available shows average reductions in annual fuel bills ranging from £99 for tenants of private landlords to £26 for tenants of housing associations.

The Home Energy Efficiency Scheme (Wales)

3.11 The Home Energy Efficiency Scheme (HEES) is the Welsh Assembly Government's main vehicle for lifting Welsh households out of fuel poverty. From the start of the Scheme up to December 2005, 57,000 households in Wales received assistance. The Scheme had a budget of £14.1m for 2005/06.

3.12 Since August 2004, all households applying to the Scheme have been offered benefits advice to ensure that they maximise both the assistance available to them under HEES and access benefits to

which they are entitled. Between August 2004 and December 2005 over 4,000 Checks have been completed with 1,372 households being identified as eligible for additional benefits averaging over £62 per month. This means that over £2,000,000 of additional benefits has been identified for households in Wales.

3.13 The Assembly Government has carried out a limited pilot of solid fuel central heating under HEES for qualifying households without mains gas. Installation of systems under the pilot is now complete, with 29 systems having been installed. Eaga Partnership worked with the Solid Fuel Association, Tower Colliery and local coal merchants to help identify households who were identified as potentially suitable for the pilot. Some households referred to the pilot were in fact able to receive gas central heating under the Scheme. The majority of the applications which proceeded under the pilot required additional works before the system could be installed to conform with current Scheme Regulations. The average cost of this work and installation of the solid fuel central heating system was over £4,100.

Warm Homes (Northern Ireland)

- 3.14 Warm Homes and Warm Homes Plus are the main instruments for tackling fuel poverty in the owner-occupied and private rented sectors in Northern Ireland. Since the Scheme began in 2001, over 25,000 households have received assistance. Funding for the scheme has increased significantly in recent times, from just over £3 million in 2001 to almost £15 million in 2005/06. To reflect this, the target number of households to be treated under the scheme has almost doubled, from 4,250 in 2001 to 8,250 in 2005/06. Due to increasing costs and increasingly complex work such as back boiler removal and asbestos issues, the grant limit for Warm Homes Plus increased from £2,700 to £3,700 in March 2005.
- 3.15 A repair specification has been incorporated into the scheme which means that repairs and upgrades to oil and gas central heating systems are completed to a uniform standard. This means that less funding is used overall and more homes can receive measures from the Warm Homes Scheme.

Fuel Poverty Partnership Fund (Northern Ireland)

- 3.16 Some £500,000 has been allocated to a number of fuel poverty projects that will receive additional funding from the Energy Efficiency Projects Fund managed

by Northern Ireland Electricity and other partners such as EST, Phoenix Natural Gas and Investing for Health. Maximising funding available on average, for every £1 the Projects Fund contributes, an additional £7 is contributed from other sources. Through participation on the partnership schemes, DSD have been able to tackle fuel poverty among households that either do not qualify or do not apply for help under the mainstream programmes.

Energy Efficiency Commitment

- 3.17 Under the Energy Efficiency Commitment (EEC), electricity and gas suppliers are required to meet targets for the promotion of improvements in household energy efficiency in Great Britain. The EEC for 2002-05 required suppliers to focus at least 50 per cent of energy savings on a Priority Group of low income consumers, as does the current EEC for 2005-08. The EEC for 2002-05 ended on 31 March 2005 and all solvent suppliers achieved their EEC targets. In addition suppliers started work early on their targets for EEC 2005-08, which require around double the level of activity.
- 3.18 As a result of the focus on the priority group of low-income consumers, EEC will make some contribution to the eradication of fuel poverty. It is not possible to accurately quantify this effect, since the EEC low-income group does not

correspond exactly with fuel poor households and the EEC is monitored on the basis of energy savings from measures installed, rather than the number of households receiving measures. However, Defra is currently evaluating the impact of key EEC measures on fuel poor households. Results of this work will be available in the near future.

The Decent Homes Standard

3.19 Since the last UK Fuel Poverty Strategy Annual Report, DCLG has continued to make progress towards the Decent Homes target. Figures from the English House Condition Survey for 2004 show that the number of social sector non-decent homes has fallen by 24 per cent since 2001. There has been a 31 per cent reduction in the number of social sector homes failing on the thermal comfort criterion, from over 1.3 million homes in 2001 to 0.9 million in 2004. Since 2001, over 470,000 dwellings have received work to improve their energy efficiency under the Decent Homes programme or as part of wider local authority work to update the stock. In the private sector the proportion of vulnerable households (those in receipt of means tested or disability related benefits) living in decent homes has increased by over eight percentage points to 66 per cent.

3.20 In last year's progress report we announced that research was being undertaken to determine to what extent social landlords exceed the Decent Homes Standard when carrying out work on their properties. Publication of the findings of this research is due in the coming months, but initial results indicate that social landlords are carrying out work beyond the requirements of the Decent Homes standard, addressing fuel poverty levels in the process. In some cases, external insulation work is being undertaken to non-cavity wall properties - and many social landlords are installing 200-250mm loft insulation regardless of the heating system present in the property. The research is likely to indicate that this additional work will help to further reduce the number of dwellings with very poor energy efficiency (i.e. a SAP rating below 35). In the social sector the number of dwellings with a SAP of less than 30 has halved since 1996 from 16 per cent of the stock to 8 per cent in 2003.

Community Energy

3.21 The Government's Community Energy Programme provides grants to support installation and refurbishment of community energy systems across the UK. One of its key aims is to help 100,000 people on low incomes heat their homes and to provide cost savings for households over the life of the schemes.

Other Energy Company Schemes and Initiatives

- 3.22 Energy companies have continued to pursue a wide variety of actions to help their most vulnerable customers. All are going beyond their statutory duties and are offering a range of assistance, including social tariffs, provision of energy efficiency advice and assistance, and Trust Funds. The full range of non-EEC assistance provided to customers by energy supply companies is given in one of the internet-based annexes to this report, and covers the DTI/Ofgem survey of supplier activity in this area.
- 3.23 As well as their own distinct efforts to tackle fuel poverty, energy supply companies worked together to develop the Home Heat Helpline, which was launched on 31 October 2005. This provides vulnerable customers and their representatives with a central point of information relating to the help available – in terms of energy efficiency measures and tariff advice for example – from their energy supplier, and seeks to link with other assistance from Warm Front and the Pension Service.

- 3.24 In its first two months, the Home Heat Helpline received 6,000 calls, an average of 100 per day. Most callers had a general enquiry, the most common issues relating to the Priority Service Register, billing or inadequate heating. The Energy Retail Association has promoted the Home Heat Helpline across the media, stakeholders and the public and will continue to do so.

The Design and Demonstration Unit

- 3.25 In 2005/06, the DDU, a unit based within the DTI, continued its work to provide mains gas connections to deprived communities outside the mains gas network using market mechanisms. Seventeen demonstration projects assisting over 5,000 households have now either been completed, are under construction or about to begin.
- 3.26 Following its evaluation of the concept of providing cost-effective renewable energy solutions to deprived communities for which a mains gas connection would not be economically viable, the DDU has now finalised agreements for partnership programmes in North-East England, and Yorkshire and Humberside with the local regional development agencies. The programmes will begin in 2006/07, and will be concluded by 2008/09. They are

designed to assist 20 communities and 2,000 households in each RDA area, as well as informing other programmes. The DDU is also carrying out research and designing new projects outside these demonstration programmes. The DDU's first annual report contains further information on its work.¹⁵

Warm Zones Limited

3.27 Warm Zones Limited (WZL) has now evolved from the initial Government sponsored pilot scheme which concluded in March 2004 into an established social enterprise and a wholly owned subsidiary of NEA. The new WZL has already improved the energy efficiency of over 425,000 homes and is currently operating across 18 local authority areas with a population of almost 1.9 million. WZL is using the best practice model identified from operational experience and the independent pilot evaluation to benefit all households in the Zone areas, particularly the most vulnerable.

3.28 By creating and sustaining professionally led, effective community based partnerships, the individual needs of Local Authorities, Registered Social Landlords, and householders can be met, whilst delivering the overall Warm Zone mission: To facilitate the efficient, integrated and

appropriate delivery of practical measures to alleviate fuel poverty and improve domestic energy efficiency in defined geographical areas.

3.29 The last twelve months have seen the launch of a new Zone in Gateshead and continued development work on future Zones. Associated projects have also been launched in Stoke and Wrexham. Around 100,000 homes have been assisted since the conclusion of the pilot, taking the total number of households assisted to over 425,000. Over 23,000 Benefit Entitlement Checks have now been delivered, with an average income increase of £1,525 per successful client. In addition, over 40,000 households have been referred to the Warm Front Scheme, receiving over £21 million of measures.

3.30 The Energy Saving Trust published an independent evaluation of the Warm Zones pilot project in January 2006¹⁶, which set out the lessons learned during the pilot and gave a variety of useful information for the energy efficiency and fuel poverty communities on how to take this type of activity forward.

¹⁵ <http://www.dti.gov.uk/energy/fuel-poverty/ddu/index.html>

¹⁶ http://www.est.org.uk/aboutest/publications/index.cfm?mode=listing&pub_id=748#pub748

Chapter 4

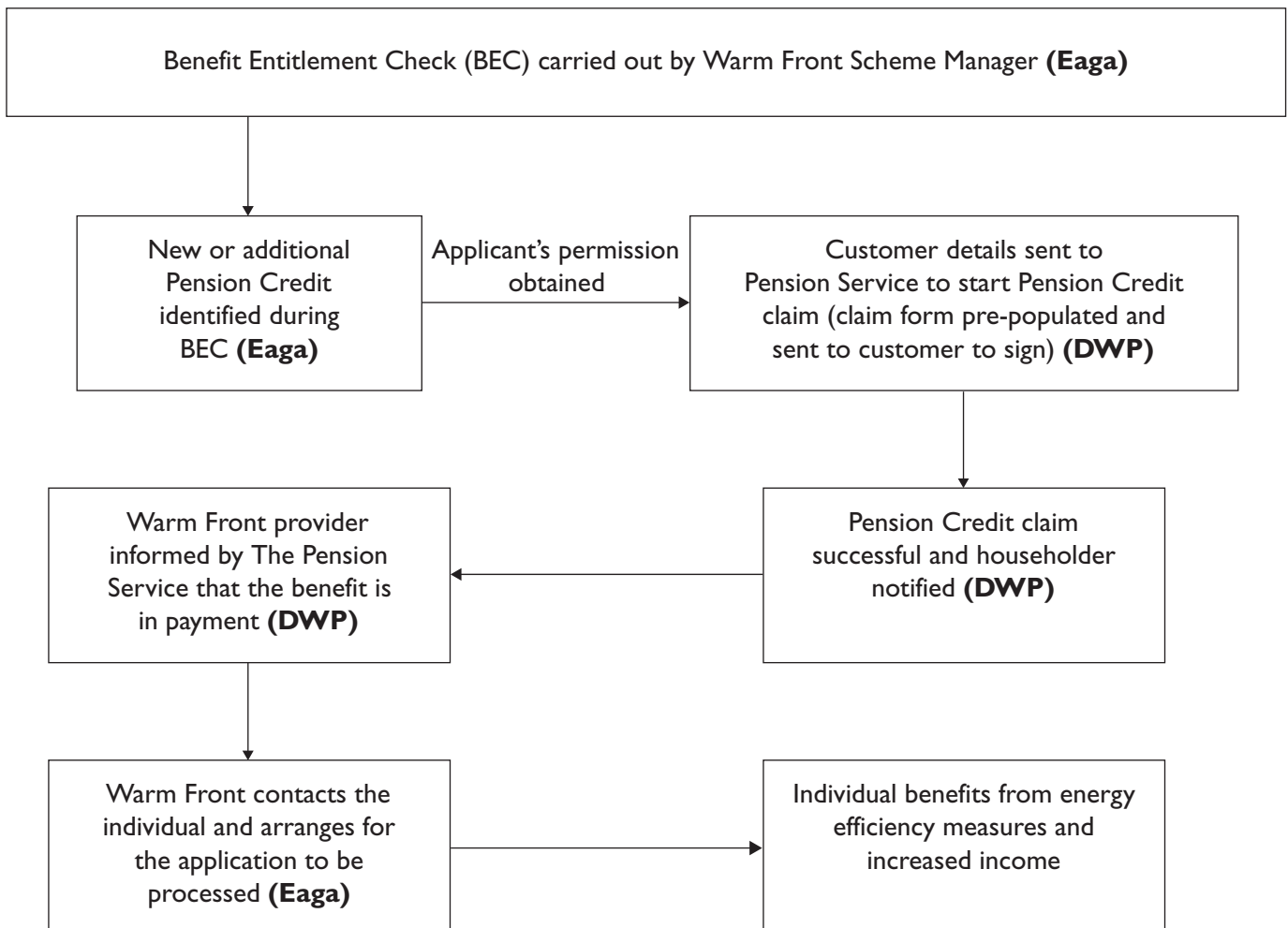
Actions to tackle fuel poverty: Our Partners

Other Government Departments

Department for Work and Pensions (DWP)

4.1 A major development this year has been closer working between the Department for Work and Pensions (DWP) and both the Warm Front Scheme Manager and energy suppliers. Building on the

Link-Age programme – which is about building more effective partnerships between The Pension Service and local partner organisations – a two-way referral system with the Warm Front provider has been established. This ensures that an individual only has to give their details once in order to access both the benefits they are entitled to and the Warm Front Scheme. This process is shown below:



- 4.2 Similar cross-referral arrangements have been developed between The Pension Service and energy suppliers, particularly in relation to the Home Heat Helpline. DWP is also working with energy suppliers to establish whether data held by The Pension Service could be shared, in order to identify neighbourhoods where there is likely to be high entitlement to the Priority Service Register. This would enable suppliers to focus work on encouraging take-up in those areas. This will be taken forward over the next year.
- 4.3 More widely, significant progress has been made in tackling pensioner poverty, a contributing factor in reducing fuel poverty. Since 1997, some 2.1 million pensioners have been lifted out of absolute poverty and 1 million out of relative poverty.
- 4.4 Some 11.7 million people aged 60 and over received Winter Fuel Payments in the 2005/06 winter. The current rate is £200 with those over 80 receiving an extra £100 per household (nearly two million people). The Government has committed to retaining Winter Fuel Payments at this rate for the remainder of the current Parliament.
- 4.5 Winter Fuel Payments alone have taken 100,000 households out of fuel poverty in 2004. Clearly an additional £200, or more for those aged 80 or over, can make a substantial difference to the average standard credit fuel bill of £671 per year. In the established fuel poverty methodology, Winter Fuel Payments are treated as part of general income – however, if elderly households chose to use their Winter Fuel Payments against their energy bills, it is estimated that a further 400,000 households would not have to pay more than 10 per cent of their income to maintain an adequate standard of heating.
- 4.6 Pension Credit is playing a major role in delivering substantial increases in income. The current rate of the Guarantee element is £114.05 a week for a single person and £174.05 for couples. The Government has committed to increasing Pension Credit in line with earnings until 2008. Pension Credit also means that people aged 65 and over who have made modest provision for their retirement will be rewarded. This is worth up to £17.88 a week from April 2005 for single pensioners and up to £23.55 a week for couples.

4.7 The DWP also makes Age Related Payments. This is a £50 payment for eligible households with someone aged 70 or over in receipt of the guarantee credit element of Pension Credit. The payment is designed to provide extra money to older people to help them with living expenses. The £50 payment is a tax-free lump sum that does not affect any State Pension or other benefits a person may receive. In 2005/06 there was also a £200 payment to help with Council Tax bills for eligible households with someone aged 65 or over who is not in receipt of the guarantee credit element of Pension Credit. These measures have all increased pensioner incomes and contributed towards enabling them to affordably heat their homes.

4.8 The Government is also making progress on tackling child poverty, which is again a significant part of the fight to eradicate fuel poverty. The overall objective is to halve child poverty by 2010 and eradicate it by 2020. The Government's strategy for tackling child poverty as set out in the July 2004 *Child Poverty Review* is to:

- Provide financial support for families with more help for those who need it most when they need it most
- Provide employment opportunities for all, with work for those who can and support for those who cannot

- Tackle material deprivation through promoting financial inclusion and improving housing
- Delivering excellent public services to improve children's life chances and break cycles of deprivation

4.9 The most recent data shows that between 1998/99 and 2004/05 the number of children in relative low-income households fell from 3.1 million to 2.4 million on a before housing cost basis and from 4.1 million to 3.4 million on an after housing cost basis. The Government reforms to the tax and benefit system since 1997 continue to benefit families with children. As a result of these reforms by April 2006, in real terms:

- Families with children will be, on average, £1,500 a year better off, while those in the poorest fifth of the population will be on average £3,400 per year better off
- A single-earner family on half average male earnings with two children will be £3,950 better off
- A single-earner family on average male earnings with two young children will be £235 a year better off

Department for Communities and Local Government (DCLG)

- 4.10 In addition to progress made on the Decent Homes Standard (outlined in Chapter 3), DCLG has worked to ensure that local authorities are given the necessary guidance, training and start-up resources to implement the Housing Health and Safety Rating System (HHSRS), and to use their Houses in Multiple Occupation licensing powers, as these provisions of the Housing Act 2004 come into operation in April 2006. The importance of considering energy efficiency in implementation strategies for these parts of the Act is fully recognised.
- 4.11 DCLG's statutory guidance for local authorities on the use of the HHSRS enforcement powers gives advice on the contribution that they can make to fuel poverty and energy efficiency strategies. In particular, it advises authorities to take into account information from the Warm Front Scheme Managers and EEC providers in considering whether an HHSRS inspection may be needed in the interests of protecting a vulnerable occupier.

Department of Health (DH)

- 4.12 The annual Keep Warm, Keep Well campaign was launched by the Chief Medical Officer in October 2005, together with the flu immunisation campaign. This joint campaign is run as a partnership between the Department of Health, Age Concern, DWP, Defra, Help the Aged, National Energy Action (NEA), and the Women's Royal Voluntary Service. The campaign provides health and social care professionals with information and advice to be given out to vulnerable people on how to stay healthy in the winter and the practical help that is available, for example information on the Warm Front Scheme, Winter Fuel Payments, and the support available from the energy companies.
- 4.13 In addition, it provides a booklet for the public, Keep Warm Keep Well – A Winter Guide¹⁷, which is widely distributed. The campaign is supported by the Winter Warmth Advice Line from which callers can get further information on keeping warm and well in winter, including advice on their eligibility for grants and benefits.

¹⁷ http://www.dh.gov.uk/PublicationsAndStatistics/Publications/PublicationsPolicyAndGuidance/PublicationsPAmpGBrowsableDocument/fs/en?CONTENT_ID=4120477&chk=z0HdcV

4.14 The campaign enjoyed a good deal of success in the 2005/06 winter; up until February 2006, more than two million booklets including minority ethnic versions have been distributed. This year the campaign has had more advertising dedicated to it than in previous years and this is evident in the number of calls the Winter Warmth Advice Line has received over the last few months. To February 2006, the helpline received more than 13,000 calls. This was already a much higher figure than the number of calls received in 2004/05, which stood at around 9,000 at the end of that campaign.

4.15 The advertising activities have included an audio news release, which was distributed to radio stations across England and played by twenty stations resulting in an audience reach of around 837,000.

4.16 The Department of Health also collaborated with the Energy Retail Association in the launch of the Home Heat Helpline and delivered supportive PR work to ensure strong partnership working.

Ofgem

4.17 In 2005, Ofgem's initial five year programme of work under its Social Action Plan was completed. To build on this, Ofgem published a new Social Action Strategy in July 2005¹⁸. The Strategy focuses on four key areas for work over the next five years:

- Compliance with regulatory obligations and effective monitoring and reporting by the companies
- Encouraging best practice among energy suppliers, using research to identify effective approaches to fuel poverty and vulnerable customers
- Influencing the debate about measures to help tackle fuel poverty
- Informing consumers about ways to lower their energy bills

4.18 Particularly at a time of rising fuel prices, Ofgem sees it as vital that all those involved with fuel poverty work together in a joined up and holistic fashion, targeting all available support where it is most needed. Energy companies have a range of regulatory obligations towards vulnerable customers, but it is also vital that companies work with others through a range of voluntary Corporate Social Responsibility (CSR) initiatives. An audit commissioned and published by Ofgem

¹⁸ More information is available at: www.ofgem.gov.uk

of energy companies' CSR activity showed a welcome increase in this area over the past two years. Examples include trust funds to provide support to households in financial crisis, the provision of Benefit Entitlement Checks and the development of special tariffs, on which Ofgem has issued guidance.

- 4.19 Following up one of the findings of the CSR Audit, Ofgem has explored with energy companies and consumer groups best practice in relation to Benefit Entitlement Checks. A seminar was held on this subject in October 2005.
- 4.20 Together with energywatch, Ofgem has supported research into the Priority Service Register, under which special help is available to elderly, disabled or chronically sick customers. This work will feed into a review of Supply Licence obligations, which commenced during the year. Under the 'Energy Smart' banner, Ofgem promotes choices available to customers to help reduce energy costs, by switching to a cheaper supplier, paying by a cheaper payment method and installing energy efficiency measures.
- 4.21 Ofgem also administers the Energy Efficiency Commitment (EEC). There has been improved working between EEC and Defra's Warm Front scheme, to target EEC measures to customers at risk of fuel poverty.

energywatch

- 4.22 In response to price rises over the last year, energywatch has campaigned on both the underlying causes and the effects of these increases. Energywatch co-sponsored a National Right to Fuel Campaign/NEA research project that demonstrated how rising prices look set to jeopardise the fuel poverty targets and has maintained pressure on suppliers to recognise their responsibilities to those consumers hit hardest by rising prices; and to encourage them to develop products that will mitigate the impact of price increases.
- 4.23 Energywatch's campaigning on bad billing culminated in its Super Complaint, which was the first ever in the energy sector. Over 60 per cent of all complaints received by energywatch in 2004 related to problems arising from energy bills. The difficulties caused by unexpected large bills and the accompanying demands for immediate payment impacts disproportionately on low-income consumers. The resultant ruling from Ofgem will mean that by 2007 suppliers will no longer be able to backdate bills by more than one year.

4.24 Energywatch's report: Putting Priorities in Order: How well does the PSR serve priority consumers?¹⁹ represented the experiences of some of the most vulnerable energy consumers and has provided invaluable evidence on how the energy market could better address the problems that commonly affect this group. Energywatch will use the findings to inform its recommendations on the future of the Priority Services Register.

4.25 Thanks to a comprehensive restructuring during 2005, energywatch is now better placed to scrutinise the industry and its practices, particularly with a view to identifying the key issues affecting vulnerable and low-income consumers. The restructuring means energywatch is better placed both to stop problems at source and to work with relevant partners and grass roots agencies to help vulnerable consumers take advantage of the full range of assistance and measures available to them.

National Energy Action (NEA)

4.26 NEA has undertaken a range of project activities during 2004/05²⁰. These have aimed to contribute to the co-ordination of delivery of energy efficiency services at a local level, develop strategic fuel poverty alleviation activity by regional bodies and to continue work with partners in the health sector. Examples of work undertaken with support from Defra during the last year are:

4.27 Local Strategic Partnership (LSP) Implementation: NEA has undertaken work with five local strategic partnerships to promote integration of action to tackle fuel poverty into LSP objectives. The programme has delivered training for LSP co-ordinators, developed affordable warmth referral networks between LSP partners and developed mechanisms for communication across LSP themed groups so that tackling fuel poverty can be recognised as a cross cutting area.

4.28 Local Authority Energy Champions: NEA has worked with Cabinet/Executive Members in fifteen local authorities across three Government Office Regions. The activity has included agreeing action plans with the Members and personal mentoring, support, training and awareness raising with the aim of improving the delivery of local authority fuel poverty responsibilities.

¹⁹ http://www.energywatch.org.uk/uploads/How_well_does_the_PSR_serve_priority_consumers.pdf

²⁰ More information on the full range of work undertaken by NEA is available at: www.nea.org.uk

- 4.29 Evaluation of Primary Care Trust (PCT) Energy Champions Programme: Defra has funded NEA to develop a PCT Energy Champions programme since 2002, where individual health workers from a range of disciplines within PCTs have been trained and supported to develop and deliver specific fuel poverty projects. In the current year NEA has evaluated the way in which these projects have achieved sustainability and influenced policy and practice development, and a Good Practice guide detailing the impact of the programme will be distributed.
- 4.30 Park Homes: NEA has undertaken a project to establish whether it is practicable to ensure affordable warmth for permanently located mobile homes by installing air source heat pumps, heat distribution equipment and controls to properties in two park home sites.
- 4.31 Social Aspects of Alternative Technologies: This project has aimed to identify how the maximum benefits for low-income and vulnerable households can be gained from a range of existing and emerging technologies. By analysing usage and interviewing clients, the project has aimed to identify how such technologies can be adapted for low-income householders and how information can be developed for users that is simple, effective and appropriate to their needs.

The Energy Saving Trust (EST)

- 4.32 The review to assess the impact of the Warm Front scheme on householders' quality of life, mental and physical health and the risk of cold related death has now been completed. The study commenced in November 2001, with fieldwork being undertaken in the winters of 2001 and 2002. The headline results were announced at the Health, Housing and Fuel Poverty Forum's annual conference in March 2006, and are summarised below. Detailed results have been published in a range of papers, and will continue to be released through professional journals during the course of 2006/07.

Health Impact Evaluation of Warm Front: Headline results

- Warm Front measures increased average living room temperatures by 1.6°C and bedroom temperatures by 2.8°C, taking them above the respective 18°C and 16°C thresholds recommended by the UK Government's Fuel Poverty Strategy to avoid a risk to health.
- Improvements in energy efficiency of this magnitude will reduce excess winter deaths in the UK.
- The average cost per life year saved ranged from £4,000 for insulation to £21,000 for heating plus insulation over a twenty year horizon.

- Satisfaction with the heating system and higher temperatures, and less difficulty paying heating bills are all associated with better mental health and well-being.
 - Warm Front improvements are associated with more resident control over their homes, less insecurity, a greater feeling of safety and better mental health and well-being.
- 4.33 EST's practical help initiative, which offers solutions for promoting and implementing sustainable energy policies and measures to reduce carbon dioxide to local authorities and housing associations, reported around 4 per cent of all enquiries related to fuel poverty. In addition, EST's Innovation Programme has also funded a total of twenty-one projects with a fuel poverty component.

The Energy Efficiency Partnership for Homes

- 4.34 The Energy Efficiency Partnership for Homes (the Partnership) comprises some 400 supply chain companies and organisations across the UK.

4.35 During the last financial year (2005/06) the Partnership's Fuel Poverty Strategy Group, held a cross-Partnership seminar to encourage the take up of fuel poverty initiatives by the Partnership's twelve other main working groups. The Group also commissioned three projects: an investigation into the barriers to the uptake of fuel poverty measures; an integration of welfare benefit checks into fuel poverty services; and, an assessment of the relative merits of different fuel poverty indicators.

4.36 The work of the Fuel Poverty Strategy Group is further facilitated through its two subgroups. The Health subgroup continued to fund and guide the development of the Health Housing and Fuel Poverty Forum, which it initiated in 2005. The Hard-to-Treat Homes subgroup continued work to enhance the availability of web-based information about hard to treat homes through its collaboration with the Best Practice in Housing Programme. This subgroup also commissioned work to establish the prevalence of hard to treat homes in the UK.

Chapter 5

The Energy Market

Energy Prices

- 5.1 The average price paid by households for electricity and gas in 2005 compared to the average price for 2004 rose in both real and cash terms (by 12 per cent for gas and 8 per cent for electricity in real terms). This follows a smaller price rise between 2003 and 2004, and means that energy prices in 2005 were around 1994 levels for gas and around 1999 levels for electricity. Further sharp price increases have occurred in 2006.
- 5.2 Prices are now rising mainly as a result of increasing wholesale gas prices, higher international coal prices, the recovery of wholesale electricity prices from unsustainably low levels and the introduction of the EU Emissions Trading Scheme in 2005. Increases in oil prices are the main factor behind rising gas prices as the two are often contractually linked. Increases in the price of gas affect electricity prices, as gas is an important part of the UK generation mix.
- 5.3 Analysis of overall effects of changes in fuel prices and incomes, excluding consideration of energy efficiency improvements, suggests that the total number of vulnerable households in fuel poverty is likely to rise by around one million households in England between 2004 and 2006, with proportional rises in the other countries in the United Kingdom. It is estimated that increases in energy prices will have increased fuel poverty by 1.25 million vulnerable households, while income improvements will have reduced fuel poverty by 250,000 households.
- 5.4 There are still potential gains to be had from switching supplier and payment method. Potential savings for standard credit customer average £48 for gas and £23 for electricity. Opting to pay by direct debit after switching supplier can save a further £16 for both electricity and gas. These are average savings, and in some cases, much greater savings are possible, i.e. of around £200 in total.

5.5 In September 2005, the Trade and Industry Select Committee announced a short Inquiry into the UK's gas supply, in light of fears of a shortage of gas in winter 2005/06, and the resulting rise in gas and electricity prices for both domestic and industrial or commercial customers. This built on the Committee's Inquiry into Fuel Prices, the report of which was published in March 2005, and focused on whether the supply situation in the 2005/06 winter was likely to be about the same, better or worse than predicted in February 2005, and the likely impacts of Hurricanes Katrina and Rita on the UK market. The Committee produced its report in December 2005,²¹ and the Government responded in mid-January 2006.²²

5.6 The main conclusions of this investigation were that tight gas supplies this winter were principally because of the faster than expected decline in gas production from the UK Continental Shelf. While the Government cannot directly set the price of gas, it can ensure there are no UK regulatory or economic barriers to maximising gas supplies and storage facilities and improving the functioning of the gas market.

5.7 The Trade and Industry Select Committee believed that the Government should re-double its efforts on promoting EU liberalisation. There should also be help for industrial and commercial customers to share best practice on how to cope with high prices and a volatile market.

The impact of price rises

5.8 DTI and Defra, in collaboration with the Fuel Poverty Advisory Group, have carried out a major piece of analysis to look at the impact of energy efficiency measures on fuel poverty status in England. This work will feed into the fuel poverty analysis workstream of the Energy Review, however some high level results are given below.

5.9 Looking at the central energy price and income scenario, these projections show that around 1.2 million vulnerable households will remain in fuel poverty in 2010. These are the number of vulnerable households that will need a policy intervention to remove them from fuel poverty. Under the high-case scenario, 2.1 million vulnerable households need to be removed by a policy intervention, and under the low-case scenario, 700,000 vulnerable households need to be removed.

²¹ <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtrdind/632/632i.pdf>

²² <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtrdind/833/833.pdf>

5.10 The analysis also indicates that the measures currently available under our main programmes can generate significant reductions in fuel poverty of around a third, however the current mix alone is unlikely to eradicate fuel poverty, particularly as a significant proportion of those modelled as remaining in fuel poverty in 2010 live in solid-walled properties (around half) or are not in close proximity to the gas network (around a quarter).

5.11 A further prominent reason for households remaining in fuel poverty in 2010 in the modelling was the fact that the majority of these households were in receipt of extremely low incomes; so much so that energy efficiency measures alone may not always be enough to take them out of fuel poverty.

5.12 We are examining the potential for further measures. Fuel poverty is caused by a complex mixture of circumstances relating to housing conditions, incomes and energy prices. We will consider whether there are any further steps that the Government, working with the Fuel Poverty Advisory Group, the energy supply industry and other stakeholders, could take to progress towards our 2010 targets and the UK goal of eradicating fuel poverty by 2016-18. The conclusions of this work will be finalised during the Energy Review period, which is due to conclude in summer 2006.

Chapter 6

Advisory Bodies across the UK

The Fuel Poverty Advisory Group for England

6.1 The Fuel Poverty Advisory Group for England met regularly throughout the year, and welcomed the Chartered Institute of Housing as new members. The Group's Fourth Annual Report was published on 15 March 2006, and contained a number of recommendations for Government. These recommendations, along with the Government's response, are presented below:

6.2 RECOMMENDATION 1: ENERGY PRICES

The current energy price levels result only in part from worldwide developments. These levels raise extremely serious concerns, if they are anything other than a short run non-recurring blip, and the Government and Ofgem should consider all options for securing a reduction and preventing a recurrence of these high prices. These options should include interventions of different kinds in the market – which we are not necessarily advocating, but which do need to be looked at carefully, given the terrible effects of current prices on fuel poverty. This should be picked up in the Energy Review as well as in more immediate assessments.

GOVERNMENT RESPONSE

In a competitive market, Government's role is to set the regulatory framework and monitor the market's operation. Within the market, individual pricing decisions are a matter for each of the energy companies, and Government or other responsible authorities should not ordinarily intervene unless there is evidence of, for example, anti-competitive behaviour or market failure. However, it is appropriate that Government should look at ways to make the markets work even more efficiently and effectively on behalf of customers. As part of this work, the Government is, with the Group's help, carrying out an analysis of margins in the energy market.

However, the Government believes that interfering with energy prices, for instance by the reintroduction of price controls or caps, is not appropriate. Controls and capping will tend to reduce supply, competition and innovation, all of which benefit customers. Since they tend to favour incumbents, they would also be open to legal challenge by suppliers. It is also the case that price controls and caps are, by their nature, indiscriminate, and will not necessarily provide the fuel poor with the help they need. The Government

believes that measures specifically addressed to the fuel poor are the most economically effective way of reducing the problem.

We expect upward pressure on prices to reduce, as the tightness in the UK market eases. However, the timing of this is subject to some uncertainty, as it depends on new import and storage infrastructure development. We are also looking at the long-term sourcing of energy as part of the Energy Review, including options for the sustainable sourcing of energy at an affordable cost to the consumer. In the meantime, we are working with industry and other stakeholders to improve the operation of the market and reduce the impact of high prices on affected consumers.

6.3 RECOMMENDATION 2:

There has been progress on social tariffs and prices for low income customers thanks to Ofgem and the energy supply companies. However, it ought to be possible with modern technology to secure low cost payment methods suitable for low income households. These include cheaper pre-payment meters, more suitable direct debit arrangements, streamlined payments via the Post Office, and expansion of Fuel Direct. Such payment methods could potentially reduce the price of energy by £60 pa for many low income customers. It is frustrating that there has been so little progress on this and there should be more drive from Government on the various approaches and from Ofgem on pre-payment meters.

GOVERNMENT RESPONSE

The Government welcomes the range of social tariffs, price freezes, trust funds and other measures that suppliers are offering that seek to mitigate the impact of price rises on low income customers. We will continue to strongly encourage companies to consider their most vulnerable customers when they are increasing prices. We acknowledge that cheaper pre-payment options will have a positive impact on certain households in fuel poverty, given that a quarter of the fuel poor use pre-payment electricity meters and around 15 per cent use gas pre-payment meters.

Reflecting the lower costs for suppliers, most of the lowest price tariffs are available to customers paying by direct debit. However, some households still operate solely on a cash basis, either because banking products do not give them the facilities they need, or they lack the support and advice needed to take them up. As part of the work on its Social Action Strategy, Ofgem is in discussion with the Financial Inclusion Taskforce, energy suppliers and other stakeholders, about ways in which barriers to financial inclusion can be reduced for energy consumers.

6.4 RECOMMENDATION 3

In spite of the recent, very welcome, increases in the Warm Front budget, it will be necessary to increase the resources for the fuel poverty programmes by 25%-30% over the 2006-2010 period, especially for non-gas areas, and some of these extra resources will need to be provided before the next Spending Round. We appreciate the challenges in this and we therefore set out possible sources of funds in Section 5. Even with this expenditure there are likely to be some households, where there are particular difficulties, and which are not removed from fuel poverty.

GOVERNMENT RESPONSE

The announcement in the Pre-Budget Report that an additional £300 million would be made available to tackle fuel poverty across the UK of which, £250 million would be allocated to work in England in addition to the £140 million that was announced for Warm Front in the 2004 Spending Review, represents a substantial lift to our fuel poverty work. It means that, over the 2005-08 period, more than £800 million will be available to the Warm Front programme in England, and also means that increased funding will enhance ongoing work in the devolved nations. We have worked and will continue to work closely with FPAG in the development of sophisticated modelling work to inform policy and to respond to changing energy prices.

6.5 RECOMMENDATION 4

The part of the Energy Efficiency Commitment focussed on vulnerable customers (the Priority Group) needs to be radically reformed for the next stage of EEC in April 2008, so that it is focussed much more sharply on fuel poverty. It is particularly important in current circumstances that the available resources are used as effectively as possible. Discussion on this next phase of EEC should start early in 2006. Action also needs to be taken on the current cutbacks in EEC activity.

GOVERNMENT RESPONSE

The EEC priority group focuses on low-income consumers. Its purpose is to ensure that such consumers, who spend a higher proportion of their incomes on energy, have similar opportunity to others to benefit from EEC measures. Discussions on the EEC for 2008-11 have already started and will consider a range of approaches in relation to low-income consumers. The Government is closely monitoring the current EEC for 2005-08 and is also evaluating the impact of key EEC measures on fuel poor households.

6.6 RECOMMENDATION 5

There is better engagement from other Government Departments on fuel poverty, but there is still much more to do with some Departments, and also at local and regional level, especially in finding and referring vulnerable customers who would benefit from the fuel poverty programmes.

GOVERNMENT RESPONSE

The past year has seen a good deal of engagement from colleagues across Government, and a continued recognition that fuel poverty is very much a cross-cutting issue. The arrangements between The Pension Service and Warm Front, the continued development of the Health, Housing and Fuel Poverty Forum, the powers available under the new Housing, Health and Safety Rating System and the continued success of the Keep Warm, Keep Well campaign all serve as testament to the fact that fuel poverty remains a priority in several Departments. However, we are aware of the FPAG's views on data sharing, and will continue to look for further opportunities to deliver a range of measures and explore how they could be implemented.

6.7 RECOMMENDATION 6

The Energy Review should reaffirm the Government's commitment to the statutory fuel poverty targets and should set out what in its view needs to be done to meet the targets. FPAG will obviously provide input on this.

GOVERNMENT RESPONSE

The Energy Review will consider the resources and measures needed to achieve the Government's fuel poverty targets. It is fundamental that the social side of energy policy constitutes an important part of the Review process.

The Scottish Fuel Poverty Forum

- 6.8 The Scottish Executive Fuel Poverty Forum was set up in 2003 to work collectively towards delivering the Scottish Executive's fuel poverty objectives. It is composed of representatives from the public, private and voluntary sectors and usually meets four times a year. The focus of recent work has been the development of proposals for future fuel poverty programmes to be put in place to run until 2008 when current programmes come to an end. The agenda for the forthcoming months will include a review of the current remit and structure of the Forum and preliminary discussion of the strategic issues for fuel poverty reduction going forward from 2008.

Fuel Poverty Advisory Group for Wales

- 6.9 The Fuel Poverty Advisory Group for Wales was established in 2004 to monitor and review the strategy and to promote a partnership approach to tackling fuel poverty in Wales. The Chair is currently leading the process of developing a workplan for the Group. Membership of the Group has also been expanded to include the National Public Health Service and Citizens Advice Bureau Cymru.

Fuel Poverty Advisory Group in Northern Ireland

- 6.10 The Northern Ireland Fuel Poverty Advisory Group had its first meeting in June 2005. This group is separate from Government, but with access to officials and Ministers and provides a forum to allow the private and voluntary and community sector to discuss issues related to fuel poverty and advise the Department accordingly. The Group accepts that there are many factors which contribute to fuel poverty, including poor energy efficiency, low income and of course, fuel cost and it has structured its meetings around these three themes. An annual report will be produced in July 2006.

Chapter 7

The way forward

- 7.1 The Energy Review is a key piece of work going forward. The Review will consider the UK's progress against the medium and long-term Energy White Paper goals, including fuel poverty and the options for further steps to achieve them. The aim will be to bring forward proposals on energy policy in summer 2006.
- 7.2 On fuel poverty, the Review will consider whether there are any further steps that the Government, working with the energy supply industry and other stakeholders, could take to accelerate our progress towards meeting our 2010 targets and the UK goal of eradicating fuel poverty by 2016-18.
- 7.3 In terms of the future prospects for energy prices, under the DTI Central price scenarios, it is assumed that oil prices ease as new production capacity is built and demand growth moderates. However, as oil is increasingly produced from more expensive sources, prices are assumed to remain higher than the historic average. The gas price in Europe and the US is assumed to remain oil linked and UK gas prices are assumed to be similar to continental prices plus the transport cost differential. Additional investment in coal production capacity, as a result of recent high prices, is assumed to lead to coal prices falling. There is therefore little prospect of a significant reduction of energy prices in the short term.
- 7.4 The 2005 Pre-Budget Report announced that an additional £300 million would be made available to tackle fuel poverty across the UK. In England this means that funding for the Warm Front Scheme will exceed £300 million in 2006/07, and puts total funding for the Scheme over the 2005-08 period in excess of £800 million. This will strengthen the ability of the Scheme to target and deliver assistance to the most vulnerable households, and will enhance the capability of the Scheme to look closely at the feasibility of offering alternative measures in non-traditional properties.
- 7.5 It was also announced in the 2005 Pre-Budget Report that those householders over 60 who are currently ineligible for benefits and therefore not able to receive Warm Front assistance will be able to receive a contribution of £300 towards the cost of a central heating system. Detailed arrangements for this assistance are now being developed.
- 7.6 It is important that we continue to ensure that the range of support that is in place for the most vulnerable households is taken up. The Government recognises the impact that price increases are having on such households and is steadfastly committed to continuing to work together with key players to ensure vulnerable households are made aware of the nature and level of support that is available.

7.7 We look forward to continuing the close partnership working that has been established with colleagues in other Government Departments. We are committed to developing this work in the context of exploring further options for better targeting of the assistance available to vulnerable groups and in further work to join up the full range of services that are provided.

7.8 In Scotland, the present fuel poverty programmes come to an end in the coming months, and the Executive has consulted key stakeholders to consider the options for the future programmes. Ministers have agreed the way forward and that the programmes will continue until at least March 2008 with widened eligibility criteria from January 2007. From this date, the scheme will be further extended to replace or upgrade partial or inefficient heating systems for recipients of the Guarantee element of pension credit. In addition, a free Benefit Entitlement Check, delivered by the Pensions Service will be offered to all applicants of pension age. The Scottish

Executive's Fuel Poverty Forum will continue to contribute their expertise to the discussions on future fuel poverty initiatives. The Executive will also run a 2 year pilot study to explore options for including renewables technologies in the central heating programme in the future.

7.9 The Welsh Assembly Government will continue to look at the impact of various pilot projects, including the solid fuel pilot outlined in Chapter 3. The final phase of that pilot will be to evaluate the performance of the systems over the 2005/06 heating season. This will then inform the decision as to whether solid fuel is an effective and economic solution to heating homes of HEES eligible households where properties do not have access to mains gas. The Assembly Government is also committed under its Sustainable Development Action Plan to establishing pilot projects that explore the potential of using renewable energy solutions. These pilots will be developed in 2006 to target low income vulnerable households, particularly those unable to benefit from traditional improvement solutions.

7.10 In Northern Ireland, the Environment and Renewable Energy Fund has been established to enhance the long term sustainability of the Northern Ireland energy system. It aims to do so in a manner which increases security and diversity of supply, encourages innovation and the development of new skills, underpins employment and creates new job opportunities, particularly in the rural community and contributes to the reduction of energy costs which alleviates fuel poverty. The fund will support action in four programmes:

- Research and Development, £15.2 million
- Building Market Capacity through the Provision of Infrastructure and Supply Chain Development, £2.5 million
- Accelerated Deployment, £25.8 million
- Underpinning Knowledge and Raising Awareness, £6.5 million

7.11 Since 2000 we have asked energy conservation authorities to report on their policies, strategies and achievements in tackling fuel poverty as part of their statutory reporting requirement to complete annual returns under the Home Energy Conservation Act 1995. We are currently finalising the scope and timescales for a review of HECA and have in the last few weeks published the terms of reference. We will be looking to engage with all of our stakeholders as the review process moves forward.

7.12 There is a busy and challenging agenda facing us all as we move forward and our targets come into sharper focus. However, the Government's commitment to eradicating the blight of fuel poverty remains undiminished. Whilst difficulties around energy prices will increase the level of challenge in the short term, we will continue to work closely with all of our partners to ensure that we remain fully engaged on the range of issues that will shape our policies and programmes in the coming months and years.

Annex A

Glossary

CSR	Corporate Social Responsibility
DCLG	Department for Communities and Local Government
Defra	Department for the Environment, Food and Rural Affairs
DDU	Design and Demonstration Unit
DH	Department of Health
DSD	Department for Social Development (NI)
DTI	Department of Trade & Industry
DWP	Department for Work & Pensions
EEC	Energy Efficiency Commitment
EHCS	English House Condition Survey
EST	Energy Saving Trust
FPAG	Fuel Poverty Advisory Group for England
HEES	Home Energy Efficiency Scheme
HHSRS	Housing Health & Safety Rating System
HMT	Her Majesty's Treasury
IHCS	Interim House Condition Survey (Northern Ireland)
LSP	Local Strategic Partnerships
NEA	National Energy Action
Ofgem	Gas & Electricity Markets Authority
PCT	Primary Care Trust
SAP	Standard Assessment Procedure
SR04	Spending Review 2004
WTC	Working Tax Credits
WZL	Warm Zones Limited



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