

The UK Fuel Poverty Strategy

**6th ANNUAL
PROGRESS REPORT
2008**

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Ministerial Foreword

There is no single solution to eradicating fuel poverty. The UK Government and Devolved Administrations have put in place a number of programmes and measures to tackle fuel poverty and they work in partnership with a range of stakeholders. From 1996 to 2004 we made good progress as we saw 4 million households lifted out of fuel poverty, as a result of our energy efficiency programmes, falling energy prices and rising incomes.

The Government is committed to ensuring all homes are warm and since winter 1999/2000 we have seen a downward trend in excess winter deaths. In the winter of 1999/2000 there were 48,500 excess winter deaths in England and Wales, compared to 23,900 for winter 06/07 (the last date for which figures are available). Although the number of additional deaths occurring in winter varies depending on temperature and the level of disease in the population as well as other factors, the overall downward trend over the last ten years is thought to be due in part to warmer homes as a result of central heating and insulation.

During the current spending period £2.3 billion has already been committed to help low income and elderly households improve the energy efficiency and heating systems in their homes, reducing the cost of their energy bills. And of course the Winter Fuel Payment will continue to help 12 million pensioners keep warm this winter.

Despite the considerable resources already committed to tackling fuel poverty, rising energy price rises have made the challenge of tackling fuel poverty more difficult. That is why we are redoubling efforts with our new Home Energy Saving Programme announced on 11 September, which includes:

- an increase in the Warm Front Budget by £74m over the next two years;
- a proposal to expand energy suppliers obligations under the Carbon Emissions Reduction Target by 20%;
- a proposed new obligation on suppliers and electricity generators to install community-based energy efficiency measures through a new Community Energy Savings Programme worth £350m targeted at the country's poorest communities, and
- trebling of cold weather payments for this winter from £8.50 to £25 a week.

Fuel Poverty is not something the Government can tackle alone which is why we have been working in close cooperation with energy suppliers, local authorities, social landlords, delivery bodies and third sector organisations, alongside The Fuel Poverty Advisory Group (FPAG) and across government departments.

In preparing this 6th Fuel Poverty Progress Report we are grateful for the cooperation of Ministers of the Devolved Administrations across the UK.



A handwritten signature in black ink, appearing to read 'Malcolm Wicks'.

Malcolm Wicks
Minister of State (Energy)



A handwritten signature in black ink, appearing to read 'Phil Woolas'.

Phil Woolas
Minister of State (Climate Change & Environment)

Executive Summary

This is the Sixth Annual Report on progress in implementing the UK Fuel Poverty Strategy, published in November 2001. It presents the statistics for the numbers in fuel poverty across the UK for 2006, and provides an update on government policies and programmes to tackle fuel poverty. It also highlights new developments since our last annual report, which was published in December 2007.

The Government has in place a range of programmes and measures to address the three main factors leading to fuel poverty. These are:

- the energy efficiency of a home;
- energy prices; and
- the level of household income.

Energy efficiency and heating

Improving the energy efficiency of homes through better insulation and heating systems is key to reducing fuel bills and in turn helping to remove households from fuel poverty. This report updates on a range of programmes to tackle poor energy efficiency, including the Government's continued commitment to the Warm Front Scheme in England, with just over £800 million committed over the next spending round and a further £74 million recently announced for the next two years. Similar schemes exist within the Devolved Administrations, who are also committing considerable resources to improving energy efficiency and heating in households vulnerable to fuel poverty.

This is in addition to the energy efficiency measures installed in the homes of low income vulnerable households by the energy suppliers in order to meet the priority group target under the Carbon Emissions Reduction Target (CERT). Over the next three years low income and elderly households across Great Britain are set to benefit from around £1.5 billion of energy efficiency measures under this scheme. The new Home Energy Saving programme announced on 11 September, proposes to increase CERT by 20% - from 154 million tonnes of CO₂ to 185 million tonnes. This uplift will drive a further £560 million energy supplier investment into GB households, some £300m of which will need to be delivered to households in a priority group of low income and over 70s households.

Mitigating the impact of energy price rises

Energy prices are also a key driver of fuel poverty. Increases in the number of households in fuel poverty have been due to increases in consumer energy prices. That is why the Government has worked with the six largest energy suppliers to reach individual agreements to increase their collective expenditure on social assistance to a level of at least £150 million by the financial year 2010-11 – an increase of £225 million over the next three years.

Increasing incomes

Low income is the third contributor to fuel poverty. A wide range of action has been taken across Government to tackle poverty through improved incomes. Significant progress has been made in tackling pensioner poverty. Last winter around 12 million people aged 60 and over received Winter Fuel Payments. In his Budget 2008 speech, the Chancellor also announced additional one off payments for winter 2008/09 of £50 for households with someone aged 60-79 and £100 for households with someone aged 80 or over. The Government also recently announced an increase in the Cold Weather Payment for this winter, from £8.50 to £25 per week. This report also updates the continuing work to tackle the challenge of child poverty.

Raising awareness of help available to the fuel poor

A number of organisations, including the Department of Health and Ofgem, have made a concerted effort to ensure that those vulnerable to fuel poverty are made aware of the help available to reduce their energy bills from both Government and energy suppliers. This includes a range of activity including The Fuel Poverty Energy Summit hosted by Ofgem and the Department of Health's continued commitment to the Keep Warm, Keep Well Campaign. The Government and energy companies have also launched a joint information campaign entitled 'Save Money, Save Energy' which includes a national TV and press information campaign to publicise the help available to households.

UK Fuel Poverty Statistics

Despite this significant spend on fuel poverty programmes and benefits, our 2006 figures show there were approximately 3.5 million households in fuel poverty across the UK, an increase of 1 million households since 2005. Around 2.75 million of these were vulnerable households. This increase in fuel poverty reflects the impact of energy price rises on fuel poverty levels.

This report is accompanied by a series of internet-based annexes¹ which include more in-depth statistics on the demographic, geographic and socioeconomic breakdowns of fuel poverty. Also published for the first time as part of the report is a detailed statistical annex which provides comprehensive analysis of the 2006 figures and projects forward the position for fuel poverty in 2007 and 2008.

The Government's Fuel Poverty Advisory Group

This report also responds to the recommendations of the Fuel Poverty Advisory Group for England (FPAG), whose determined efforts and commitment are continuing to energise and take forward the fuel poverty agenda.

¹ <http://www.berr.gov.uk/energy/fuel-poverty/strategy.html> -

1 Our Commitments

The United Kingdom

- 1.1 The aim of the UK Government and the Devolved Administrations remains the eradication of fuel poverty, as detailed in the 'UK Fuel Poverty Strategy'² published in November 2001; a commitment reaffirmed through measures set out in the 2003 and 2007 Energy White Papers. Separate targets exist in England and each of the Devolved Administrations, with the overall aim being that by 2018 no household in the UK should live in fuel poverty.

England

- 1.2 The aim in England, restated in 'Fuel Poverty in England: The Government's Plan for Action'³ is that the Government, as far as reasonably practicable, will seek an end to 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 is reasonably practicable, no person in England should have to live in fuel poverty.

Scotland

- 1.3 The Scottish Government has a target to eliminate fuel poverty as far as is reasonably practicable by November 2016. This was set out in the Scottish Fuel Poverty Statement published in 2002 to meet the requirements of section 88(1) of the Housing (Scotland) Act 2001.⁴

Wales

- 1.4 As set out in the 'Fuel Poverty Commitment for Wales' the Welsh Assembly Government's target is that as far as reasonably practicable, no vulnerable household in Wales should be living in fuel poverty by 2010 and no household should be living in fuel poverty by 2018.⁵

Northern Ireland

- 1.5 'Ending Fuel Poverty: A Strategy for Northern Ireland'⁶ sets out the aim, subject to necessary resources, to eliminate fuel poverty in vulnerable households by 2010, and in non-vulnerable households by 2016.

² <http://www.berr.gov.uk/energy/fuel-poverty/strategy.html>

³ <http://www.defra.gov.uk/environment/climatechange/uk/household/fuelpoverty/index.htm>

⁴ <http://www.scotland.gov.uk/Publications/2002/08/15258/9951>

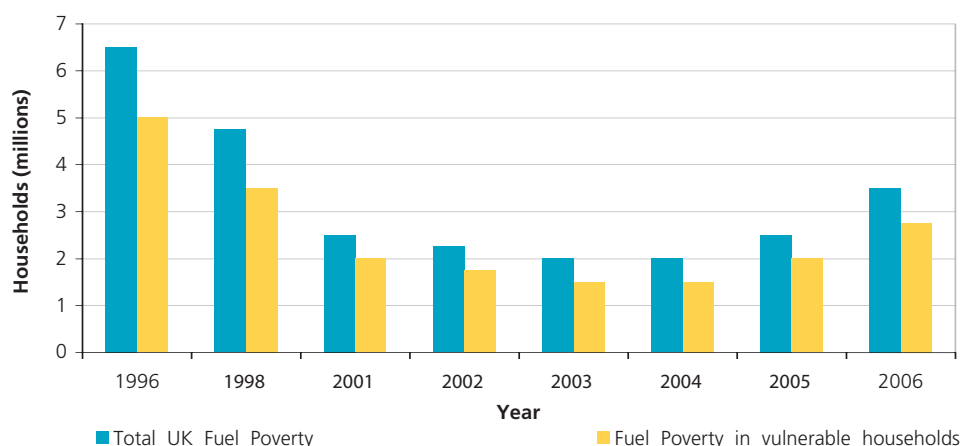
⁵ <http://new.wales.gov.uk/topics/housingandcommunity/housing/publications/fuelpovcommit?lang=en>

⁶ http://www.dsdni.gov.uk/ending_fuel_poverty_-_a_strategy_for_ni.pdf

2 Progress to Date

2.1 Measuring fuel poverty on a UK wide basis is complex as figures are estimated on a country by country basis to different timescales and slightly different definitions. Nonetheless, the latest estimates indicate that in 2006, there were approximately 3.5 million

households in fuel poverty, an increase of around 1m households since 2005. Around 2.75 million of these were vulnerable households, an increase of around 0.75 million. The increase reflects the impact of energy price rises in recent years on the number of households in fuel poverty.



Progress in England

2.2 Based on the results of the 2006 English House Conditions Survey, the overall number of households in fuel poverty in England in 2006 was estimated to be 2.4m (around 11.5% of all households) of which around 1.9 million were vulnerable. This represents a total rise of 0.9m households since 2005 and a rise of 0.7m vulnerable households over the same period. Further details explaining reasons behind the change in fuel poverty between 1996 and 2006 are included in the statistical annex to this report.

mix of fuel poverty measures will not totally eradicate fuel poverty amongst vulnerable households by 2010, the package announced on 11 September underlines the Government's commitment to doing all that is reasonably practicable to ensure that such households do not live in fuel poverty. We remain committed to doing all that is reasonably practicable to eradicate fuel poverty in all households by 2016.

2.3 Rising energy prices have made the challenge of tackling fuel poverty more difficult. Therefore, whilst the current

2.4 Projections of fuel poverty in England for 2007 (as detailed in the statistical annex to this report) show that prices are likely to have pushed a further 0.7 million households into fuel poverty.

Numbers of Households in Fuel Poverty in England 1996 - 2006

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

	1996	1998	2001	2002	2003	2004	2005	2006
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)	1.5 (1.8)	2.4 (2.8)
Vulnerable	4.0 (4.3)	2.8 (3.2)	1.4 (1.9)	1.2 (1.6)	1.0 (1.1)	1.0 (1.1)	1.2 (1.4)	1.9 (2.3)
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)	0.3 (0.4)	0.5 (0.5)
Social Housing	Not available	Not available	Not available	0.3 (0.7)	0.2 (0.5)	0.2 (0.5)	0.2 (0.6)	0.4 (0.8)
Private Housing	Not available	Not available	Not available	1.1 (1.3)	1.0 (1.0)	1.0 (0.9)	1.3 (1.2)	2.0 (1.9)

Projections for 2008 show a further increase in fuel poverty for England, of around 0.5 million households.

- 2.5 Further work has been carried out over the last year to improve the methodology

Progress in Scotland

- 2.6 The table below shows levels of fuel poverty in Scotland over the 10 years between 1996 and 2006.
- 2.7 The "Fuel Poverty in Scotland Report," 2004, concluded that half of the change in fuel poverty between 1996 and 2002 could 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. Rising fuel prices since 2003 have been pushing fuel poverty numbers steadily upwards again.
- 2.8 The Scottish Government has conducted a Review of Fuel Poverty which was published in May of this year and is available at <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/access/FP/fuelpovertyreview>. The review indicates that more than half of the household groups that primarily benefit from current fuel poverty programmes are not fuel poor and, conversely, many of those who are fuel poor are not currently eligible for

used to calculate these statistics. These changes will have a small effect on the overall statistics, and are set out in the methodology annex. Statistics <http://www.berr.gov.uk/files/file48039.pdf>

help. It shows clearly that some refocusing of programmes will be essential to achieve the 2016 fuel poverty target.

- 2.9 The Cabinet Secretary for Health and Wellbeing made a statement on fuel poverty to the Scottish Parliament on 22 May which can be read at <http://www.scottish.parliament.uk/business/officialReports/meetingsParliament/or-08/sor0522-02.htm#Col8934>. In it the Cabinet Secretary announced the reconvening of the Scottish Fuel Poverty Forum to examine the programmes and make recommendations for moving it forward in a way that tackles fuel poverty more effectively and makes better use of the resources that are available. The Forum will report shortly and its recommendations will be considered for implementation as soon as possible.

Progress in Wales

- 2.10 The 2004 Living in Wales survey estimated that there were 130,000 households in Wales in fuel poverty. Modelling to produce projections from

	No of fuel poor households (>10% of income on fuel)	Rate per 100 households	No of extreme fuel poor (>20% of income on fuel)	Rate per 100 households
	000s		000s	
1996	756	36	182	8
2002	293	13	71	3
2003-4	350	15	112	5
2004-5	419	18	119	5
2005-06	543	23	173	7

Source: Scottish House Condition Survey, Scottish Government

the 2004 data for the number of households in fuel poverty in Wales in 2005 and 2006 has also been carried out. This modelling estimates that there were 166,000 households in fuel poverty in Wales in 2005 and 243,000 in 2006, and took into account increases in gas and electricity prices since 2004.

- 2.11 As with the 2004 survey, the 2008 Living in Wales survey will include a property survey which will enable the number of households in fuel poverty in Wales to be calculated. The results of the fuel poverty analysis of the 2008 survey are expected to be available in 2009/10.

Progress in Northern Ireland

- 2.12 The Northern Ireland House Condition Survey 2006, reported that 34% of all households in Northern Ireland were defined as being fuel poor. The Warm Homes Scheme continues to be Northern Ireland Executive's main tool in the alleviation of fuel poverty. In response to the ever increasing cost of fuel, Margaret Ritchie, the Northern Ireland Minister for Social Development established a Fuel Poverty Task Force in May 2008, which brought together representatives from Government departments and the wider energy sector. The Task Force was asked to identify measures to tackle fuel poverty, including short term recommendations which could be developed to assist those most in need this winter. The Minister has circulated a paper to her Ministerial colleagues in the Executive

outlining proposals to alleviate fuel poverty.

- 2.13 The Fuel Poverty Advisory Group in Northern Ireland published its third annual report in September 2008. The report acknowledged the substantial progress made and provides a challenge across Government Departments to develop or adjust policy in order to alleviate fuel poverty.

Fuel Poverty Statistics and Winter Fuel Payments

- 2.14 For the purposes of the Government's fuel poverty statistics, and consistency with other statistics, Winter Fuel Payments are classified as an addition to recipients' incomes. They make an important contribution to tackling fuel poverty and are responsible for taking around 100,000 households out of fuel poverty in England in 2006 (and around 200,000 in the UK as a whole).
- 2.15 However, whilst it remains appropriate to consider Winter Fuel Payments in this way for statistical purposes, to gain a full picture of the impact of Winter Fuel Payments on the situation of fuel poor households, it is also useful to consider what effect they would have if used to meet energy bills directly.
- 2.16 Taking this approach, around 600,000 fewer households in England (and around 1.1 million fewer households in the UK as a whole) are shown to need to spend more than 10% of their income in order to meet the remaining costs of heating their home adequately.

Estimated number of households in fuel poverty in England if winter fuel payments were deducted from fuel bills, 1996-2006.

(Full income definition only – Numbers in brackets are the fuel poverty figures using the official statistical methodology)

	1996	1998	2001	2002	2003	2004	2005	2006
Total Fuel Poor	5.1 (5.1)	3.4 (3.4)	1.2 (1.7)	Not available	0.8 (1.2)	0.8 (1.2)	1.0 (1.5)	1.8 (2.4)
Vulnerable	4.0 (4.0)	2.8 (2.8)	0.9 (1.4)	Not available	0.6 (1.0)	0.6 (1.0)	0.7 (1.2)	1.3 (1.9)

3 Energy efficiency and heating – national programmes

Warm Front - England

- 3.1 Warm Front has continued to be a key tool tackling fuel poverty in the private sector in England. From the Scheme's inception in June 2000 to the end of April 2008, over 1.7 million households in England had received assistance with a range of heating, insulation and other energy efficiency measures. Warm Front funding for the 2008-11 period has been set at approximately £874 million including an uplift announced recently as part of the Government's Home Energy Saving Programme. The average potential reduction in annual fuel bills as a direct result of those receiving assistance during 2007-8 is estimated at £186.74.
- 3.2 In 2007/8, Warm Front received £350 million funding, allowing the Scheme to assist almost 270,000 households; an increase of over 15,000 households over the previous year. Of those receiving assistance during this period:
- over 100,000 households received a new heating system;
 - cavity wall insulation was provided to over 30,000 households;
 - loft insulation was provided to over 58,000 households.
- 3.3 Despite the increase in activity, Warm Front has been able to significantly reduce waiting times for applicants. On average:
- surveys were completed 6.7 days after the client's application (against a target of 21 days);
 - insulation measures were installed 27.6 days after a survey (against a target of 40 days);
 - heating measures were installed 68.5 days after survey (against a target of 120 days).
- 3.4 Indicators show that customer service provided to Warm Front clients has also improved over the last year, with the customer satisfaction score increasing from 92% in 06/07 to 94% in 07/08 and complaint rates decreasing from 0.5% to 0.4% over the same period.
- 3.5 Warm Front has continued to make a significant positive impact on those households which it assists. The average energy efficiency (SAP) rating improvement for a house receiving Warm Front assistance in the last year has been 15 points, from 42 to 57. Although primarily a fuel poverty scheme, on average Warm Front has also reduced CO2 emissions by an estimated total annual saving of 1.2 tonnes for those homes improved each and every year for the next 20 years.
- 3.6 Warm Front will be continuing to seek out cost effective, established alternative technologies, with a particular emphasis on low carbon alternatives and measures suitable for 'hard to treat' properties. As part of this work Warm Front has begun a pilot of solar thermal technology. The project will install 125 units (mostly alongside electric heating systems) in off-gas properties. Installation of the systems is due to be completed by autumn 2008, with the final report completed in 2009.

Home Energy Efficiency Scheme – Wales

- 3.7 The Assembly Government's main vehicle for helping improve energy efficiency for vulnerable householders in Wales is the Home Energy Efficiency Scheme. By the end of 2007-08 some £93 million had been made available to

the Scheme since the Welsh Assembly Government became responsible for it in 2000. This will have allowed the Scheme to assist approximately 93,000 households.

- 3.8 The Scheme offers energy efficiency advice and cavity wall insulation, loft insulation, draught proofing, central heating, energy saving light bulbs, smoke alarms and security measures. The main groups eligible for assistance are pensioners, the sick and disabled and low income families.
- 3.9 The Home Energy Efficiency Scheme had a particularly successful year in 2007/8 with over 18,000 households assisted against a target of 10,000.

Warm Deal and Central Heating Programme – Scotland

- 3.10 Since its inception in 2001 to the end of March 2008, the Central Heating Programme has delivered 96,496 systems. Over 2007-08 it delivered 14,377 systems, the highest number delivered in any one year to pensioner households in the private sector. Between 1999 and 2008 the Warm Deal Programme has insulated 279,743 homes. The total cost of this investment is over £378 million.
- 3.11 However, the review mentioned above highlighted the need for reform of these programmes to remain on track to meet the 2016 target. Whilst the Scottish Fuel Poverty Forum makes its deliberations, applications to the Central Heating Programme will be prioritised to ensure that those who are most likely to be fuel poor receive assistance first. All pensioners who do not have a central heating system in their homes will continue to be a priority.

- 3.12 In addition households where the heating system has broken down and the householder or their partner is aged 80 or over or is in receipt of the guarantee element of pension credit will be prioritised for a replacement central heating system. Applications from people in other categories will continue to be considered; but their application will depend this year on available resources and, in the future, on the recommendations of the Scottish Fuel Poverty Forum.

Warm Homes and Warm Homes Plus Schemes – Northern Ireland

- 3.13 The Warm Homes and the Warm Homes Plus Schemes continue to be the main programme for tackling fuel poverty in Northern Ireland, through the provision of energy efficiency measures to owner-occupied and private sector homes.
- 3.14 Since its inception in 2001 the Warm Homes Scheme has assisted over 60,000 fuel poor households. Resources of £9.2 million over two years, were made available to the scheme through the Environment and Renewable Energy Fund, which increased the available budget to over £20 million in the 2006/07 and 2007/08 financial years.
- 3.15 This enabled an increase in the number of households benefiting from the provision of energy efficiency measures; assisted with the introduction of a boiler aftercare package that will enable service one year after installation; and extend the warranty to two years; and allowed 11,300 private sector households to receive improvements to the energy efficiency of their homes. The Northern Ireland Housing Executive improved 5,394 dwellings through its various programmes. The Housing Executive has allocated £14 million to its programmes.

Carbon Emissions Reduction Target – Great Britain

- 3.16 In April 2008, Government launched the third phase of the energy supplier energy efficiency programme, now known as the Carbon Emissions Reduction Target (CERT). The Scheme applies across Great Britain.
- 3.17 CERT's primary aim is reductions in carbon dioxide emissions in the domestic sector, but as it brings about a general improvement of the housing stock, it can also help to future proof homes against fuel poverty. The target for CERT for the next three years represents roughly a doubling of CO₂ savings under the previous Energy Efficiency Commitment in 2005-8. Suppliers are required to deliver at least 40% of their carbon savings from energy efficiency measures in households of low income consumers, known as the priority group, or those over 70.
- 3.18 It is expected that about twice as much resource, equal to about £1.5 billion over 2008/11, is directed at priority group customers compared to earlier Schemes. The Government estimates that about 1.23 million homes in the priority group will receive cavity wall insulation during the lifetime of CERT (out of 2.9 million with unfilled cavities).
- 3.19 In addition, the Government is proposing an increase in the existing CERT target by 20 per cent in the present period up to March 2011. This will require additional expenditure by the energy suppliers of an estimated £560 million of which an estimated £300m will go to the priority group of low income and elderly customers.

- 3.20 Defra has commissioned research to look at the impact of CERT in tackling fuel poverty and a report is expected later this year.

Decent Homes, Scottish Housing Quality Standard and Welsh Housing Quality Standard

- 3.21 Since the last UK Fuel Poverty Strategy Annual Report, the UK Government has continued to make progress towards ensuring all social sector housing meets the Decent Homes standard that applies in England. The Standard has a thermal comfort element that requires the presence of efficient heating and effective insulation in homes. The Department of Communities and Local Government expects 95% of all social housing in England to meet or exceed this standard by 2010, and social landlords must agree specific deadlines for the remaining 5%, or are in the process of doing so.
- 3.22 The figures from the English House Condition Survey for 2006 show that since 1996, there has been a reduction across all tenures in the proportion of households living in non-decent homes. The proportion of social sector tenants living in non-decent homes has fallen by an average of 2.5 percentage points each year, so in 2006, only 28% of were living in non-decent homes.
- 3.23 The Government aims to have 70% of vulnerable households in decent homes by 2010. 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 to 68% in 2006, a considerable improvement compared with the 43% in 1996.

3.24 In England the Decent Homes Standard is a minimum standard below which homes should not fall. It is a trigger for action and not a level that remedial work should be completed to. Indeed the majority of local authorities and registered social landlords are carrying out work well in excess of the thermal comfort standard, with 90% planning to install both cavity wall insulation and loft insulation even where the standard only requires one. Between 2001 and 2007, over 910,000 local authority dwellings have received work to improve their central heating, and over 750,000 local authority dwellings have received work to improve their insulation under the Decent Homes programme or as part of wider local authority work to update the stock. In fact, progress is being made on thermal comfort at a faster rate than the other components of the Decent Homes Standard, and the number of social sector homes in England failing on that criterion has more than halved since 1996 – from nearly 2 million down to 700,000 in 2006.

3.25 The energy efficiency of homes has been steadily improving over the last decade – the average energy efficiency (SAP) rating has improved by 7 points from 42 in 1996 to 49 in 2006. We have improved the energy efficiency (SAP) rating of social homes from 47 in 1996 to 57 in 2006. Therefore social sector homes are substantially more energy efficient than private homes. In addition the social sector has improved at a faster rate since 1996 than the private sector. The work that social landlords in particular have carried out has contributed to reductions in fuel poverty.

3.26 In Scotland, Scottish Ministers established the Scottish Housing Quality Standard (SHQS) in February 2004. It is

the principal yardstick for measuring housing quality in Scotland. The SHQS includes five criteria which a house must fulfil before it passes SHQS.

Among these criteria is that the property must be energy efficient i.e. have effective insulation (cavity wall, tank, pipe and loft) and a full, efficient central heating system. The objective that all social housing in Scotland should meet the SHQS by 2015 was also set in 2004. Progress on SHQS has so far been steady with overall failure rates in the social rented stock falling from 77% in 2002 to 60% in 2005-6. On the energy efficiency criteria in particular, the failure rate for social rented stock fell from 69% to 47% over the same period. Further investment in local authority and housing association stock should bring with it further progress in terms of meeting the SHQS.

3.27 In Wales the Welsh Housing Quality Standard (WHQS) introduced in May 2002, provides a common target standard for the physical condition of all existing social housing within Wales to be achieved by 2012.

3.28 The Standard requires the annual energy consumption for space and water heating to be estimated using SAP2005 and specifies the minimum ratings to be achieved. SAP2005 means that WHQS will now contain a single target standard of 65 out of a possible 100 for a perfectly energy efficient dwelling.

3.29 In 2004 the Living in Wales Survey assessed 15% local authority stock and 57% of housing association stock complied with the energy efficiency standards of WHQS. An update of the Living in Wales Survey is due to be published in 2009.

4 Energy efficiency and heating - area-based measures

Warm Zones – England

- 4.1 Warm Zones is a not-for-profit company and a wholly owned subsidiary of National Energy Action, the English national fuel poverty charity. Warm Zones deliver affordable warmth to low-income and other vulnerable households, as well as energy efficiency measures for the able-to-pay.
- 4.2 The approach of individual Zones and their operators varies but they characteristically involve the systematic identification of the fuel poverty and energy efficiency status of all the households in an area and the coordinated, customer focused, delivery of energy efficiency improvements and related services to low-income and other vulnerable households through referrals to Warm Front and delivery of CERT measures. Other services can include income maximisation, energy and debt advice, water saving and security measures, smoke alarms and carbon monoxide detectors. The Zones also provide employment opportunities for local people.
- 4.3 During 2007/08 Warm Zones successfully delivered a number of projects supported through the Defra Community Energy Efficiency Fund. This funding enabled the development of a number of new Zones and allowed existing Zones to expand their services. Three new Zones have been launched in North Tyneside, South Tyneside and the Northfields area of Birmingham, bringing the current total of operational Zones to eleven, with further zones at development stage. Warm Zones now operate across 35 local authority areas in England, covering more than one million homes and a population in excess of two million.

- 4.4 To date Warm Zones have now assessed more than 600,000 properties and delivered over £50 million of major energy efficiency improvements in almost 130,000 homes. In addition it has made referrals to Warm Front for grants totalling more than £21 million.
- 4.5 For more details see www.warmzones.co.uk.

Low Carbon Buildings Programme – England and Wales

- 4.6 As the Community Energy Solutions activity has shown, microgeneration technologies can offer an efficient, cost-effective alternative to mainstream fuels for communities without access to mains gas. In May, the Government announced a new pilot project that will create a fuel poverty workstream within the Low Carbon Buildings Programme. £3 million will be made available in Wales and three English Regional Development Agencies, to fund the purchase of microgeneration technologies and their installation in households in deprived communities.
- 4.7 The projects will be delivered between 2008 and 2010 by community interest companies reporting to the Regional Development Agencies in England and, to the Welsh Assembly in Wales. The projects involve not just the purchase and installation of technologies, but a whole community, whole house approach, in which individual households receive detailed energy efficiency and benefits assessments to ensure that their homes are properly insulated and that their income is maximised. As well as helping individual households, this activity will test the scope for a wider programme.

- 4.8 The revenue support provided by BERR's partners will also enable the development of mains gas projects, where appropriate. There is scope for the community interest companies to co-operate in work with the Gas Distribution Networks in this part of the activity.

Community Energy Efficiency Fund – England

- 4.9 The Community Energy Efficiency Fund launched in June 2007, invited applicants to apply for support for projects working to develop cost effective options for the delivery of Warm Front and the Energy Efficiency Commitment and CERT on a local basis.
- 4.10 Defra has funded 49 projects totalling over £6 million under the Community Energy Efficiency Fund. As these area-based initiatives understand the needs of their community, they can produce targeted, tailor-made advice and get immediate results at the doorsteps of those who really need them. The scheme's original aim was to reach 300,000 of the most vulnerable households but the successful projects are now predicted to reach 600,000 vulnerable households across England during the next 3 years.

Community Energy Savings Programme – Great Britain

- 4.11 On 11 September the Government announced that it is proposing a new community-based programme to install energy efficiency measures, targeted at the country's poorest communities. It is intended to support new and existing partnerships of local councils, voluntary organisations and energy suppliers to go street-by-street through communities offering free and discounted central

heating, energy efficiency measures and benefit checks. This programme proposes putting a new obligation on energy suppliers and electricity generators. It is envisaged that around 100 new community schemes might be created.

Local Authority Indicators – England and Wales

- 4.12 In England, National Indicator (NI)187 measures progress in tackling fuel poverty through the improved energy efficiency of households. It has been designed to measure the proportion of households on income related benefits for whom an energy assessment of their housing has been carried out and have a SAP of below 35 or greater than 65. This is ensuring energy efficiency is tackled in the most energy inefficient households and also measures progress towards achieving a SAP of 65.
- 4.13 40 Local Area Agreements (LAAs) have included NI 187 as one of the 35 local improvement targets and have set challenging but achievable targets in negotiation with the Government Office (GO). Additionally, a number have adopted NI187 as a local indicator.
- 4.14 The Assembly Government is also developing a local area fuel poverty indicator for Wales, which should assist national and local government in identifying areas with the highest concentrations of fuel poverty. Work on the indicator is being led by the Centre for Sustainable Energy and is expected to be completed in autumn 2008.

Helping households off the gas grid – Great Britain

- 4.15 As part of the post-2008 Gas Distribution Price Control, Ofgem decided to incentivise companies to provide connections to deprived communities currently off the gas network. Ofgem is now finalising the guidelines under which the Gas Distribution Networks can take this forward, but Ofgem and the Government anticipate that up to 360 communities across Great Britain will benefit if the Networks respond to the incentivisation that is being offered.
- 4.16 BERR, with support from National Grid, has carried out a number of pilots in England that have involved designing, developing and delivering projects in deprived communities outside the mains gas network. These have principally involved the provision of gas connections where they are economically viable. This work has underlined the importance of the whole community/whole house approach.
- 4.17 This work has now been expanded with the development of a model through which mains gas and renewable projects can be delivered to communities on a regional basis. A community interest company, Community Energy Solutions (CES), has been established to undertake two programmes, one in the North East and one in Yorkshire and Humberside, which have been given funding from central government and the local Regional Development Agencies. Using initial funding of £4 million plus private and public sector contributions, by 2009 CES will have assisted at least 4,000 households in 40 communities through gas network extensions and the installation of renewable technologies, particularly air-source and ground-source heat pumps, on an economically viable basis.
- 4.18 In September 2007, Domestic Energy Solutions, a subsidiary of CES, received support under Defra's Community Energy Efficiency Fund (CEEF) programme for a project to target 330,000 homes in deprived communities throughout North East England. This project is expected to give benefits and energy efficiency assessments to 180,000 homes and provide measures to 130,000 vulnerable households.
- 4.19 In Scotland over 2006-08 £1 million was allocated to a pilot project to install renewable technologies in low income households off the gas grid with no or very inefficient heating systems, in order to evaluate the costs and benefits of including these technologies in mainstream programmes. An interim report was published in November 2007 and is available at <http://www.scotland.gov.uk/Publications/2007/11/21152714/0>. A final report with a fuller analysis of the costs and benefits of including renewable technologies in fuel poverty programmes will be published shortly.

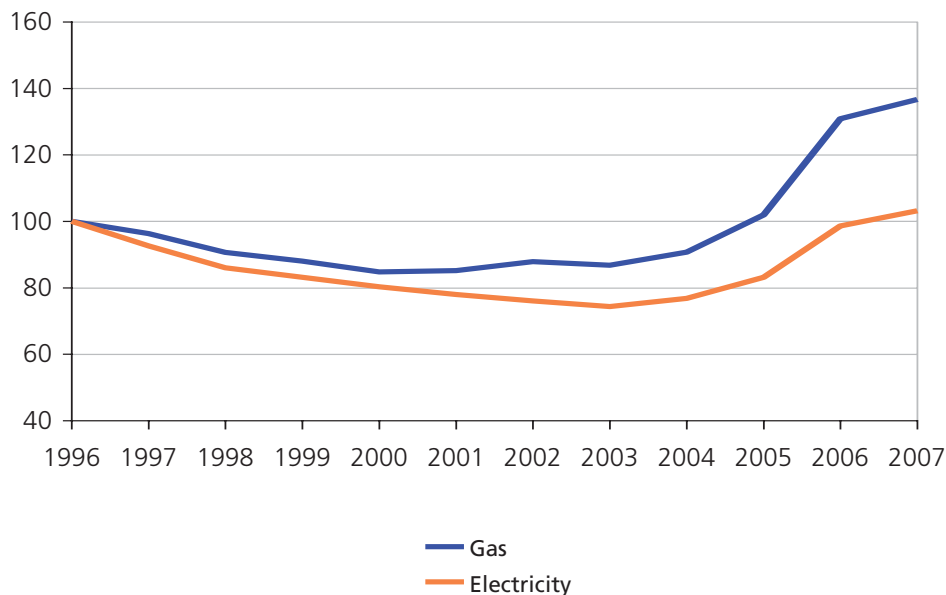
5 Energy Markets

Energy Prices

5.1 Energy prices are a key driver of fuel poverty. The rise in the number of households in fuel poverty during 2006 is due to increases in consumer energy prices. The overall cost of energy to domestic consumers rose by 22% in real terms between 2005 and 2006, with gas prices rising by 29% and electricity prices rising by 19%. This means that overall energy prices in 2006 were higher in real terms than at their very low point in 2003 with gas prices rising by around 50% and electricity prices by around a third.

5.2 All six major suppliers to the household electricity and gas markets announced reductions in tariffs in the first or second quarter of 2007, as a result of the falling wholesale gas prices over the previous six to nine months. However, prices rose in early 2008 by an average of around 15% for gas and 13% for electricity. Subsequently, they rose again during the summer of 2008, by an average of around 30% for gas and 14% for electricity.

Retail Prices Index: Real gas and electricity price index, 1996=100



5.3 The main factors behind these increases were high wholesale gas prices, driven by high oil prices, and high international coal prices. Wholesale gas year-forward prices have increased by more than 65% and coal prices by more than 85% between January 2007 and March 2008. These increases in fuel prices have in turn put strong pressure on electricity wholesale prices.

5.4 UK wholesale gas prices are increasingly linked with continental prices because of a decline in indigenous resources and a gradual replacement by imports. Continental gas prices are in turn strongly influenced by the price of oil. Strong oil demand growth and tight production and refining capacity have kept crude oil prices high. Gas transportation charges also rose in 07/08.

5.5 Policies to reduce carbon emissions such as the EU Emissions Trading Scheme, the Renewables Obligation and the Carbon Emissions Reduction Target, have also played a part in increasing the cost of energy to consumers. However, over the longer term these policies are expected to reduce costs for consumers; and the Carbon Emission Reduction Target benefits a “priority group” of poor, elderly and vulnerable householders (see chapter 3).

5.6 Market liberalisation across Europe would reduce transmission costs, improve transparency and competition, leading to savings for consumers in the UK and on the continent. The Government therefore strongly supports the liberalisation aims of the European Commission’s third legislative package on the internal energy market published in September 2007.

5.7 Increased gas storage can also help to reduce future pressures on UK gas and electricity prices. There are now 10 gas and Liquefied Natural Gas storage projects in the UK that have already gained consent and are under construction or awaiting it. The Government is taking steps to improve and streamline the regulatory regimes for constructing gas storage facilities through the Planning and Energy Bills.

Ofgem’s Social Action Strategy

5.8 Ofgem has a key role to play in ensuring the competitive energy market works for all customers and in particular for low income and vulnerable households. Ofgem’s Social Action Strategy was launched in October 2005. It sets out how Ofgem will seek to meet its social

obligations and help the Government to tackle fuel poverty.

5.9 The Strategy identifies four key areas of work for Ofgem:

- Securing compliance with regulatory obligations and effective monitoring and reporting by the companies;
- Encouraging best practice among energy suppliers, using research to identify effective ways to address fuel poverty and help vulnerable customers;
- Influencing the debate about measures to help tackle fuel poverty, working with other stakeholders, helping to promote a joined up and holistic approach; and
- Informing consumers about ways to lower their energy bills.

5.10 Annual updates to the Strategy are published by Ofgem, which report on its activities in the past year and set out its work programme for the coming year⁷. The 2008/9 update was published in July.

5.11 Fuel poverty is part of a wider problem of poverty and social exclusion caused by a combination of high energy prices, low incomes and poor housing conditions. Given such wider causes, there will inevitably be a limit to the role that the regulator and industry can play in tackling fuel poverty.

⁷ The last Social Action Strategy update was published in June 2007:
<http://www.ofgem.gov.uk/Sustainability/SocAction/Documents/1/15474-sapstrategbro06.pdf>

5.12 In February 2008, Ofgem launched a Probe in response to mounting consumer and public concern over the competitiveness of the gas and electricity markets for households and small businesses. Using its powers in the Enterprise Act, Ofgem is taking a close look at the retail market to ensure it is working effectively for all consumers, in particular vulnerable consumers, at a time of rising prices. Probe involves in-depth examinations of the energy market structure, price developments, consumer and competitor behaviour in different segments of the markets. Ofgem will report its initial findings in October. The Government welcomes Ofgem's action, and in particular its interest in ensuring that all groups of consumers benefit from competition in the markets.

5.13 Aside from the Probe mentioned above, Ofgem hosted an Energy Summit on Tackling Fuel Poverty in April. Its objective was to identify practical, cost effective ways to make real improvements as quickly as possible to the lives of vulnerable energy consumers and those in fuel poverty. The Summit was attended by Government Ministers, major energy supply companies and many of those who are actively involved in the fuel poverty area. Summit participants agreed to a number of commitments culminating in a programme of practical action to improve the targeting of existing help to those in fuel poverty and to help more vulnerable energy consumers participate more effectively in the energy market. The outcomes from the Summit are discussed in more detail below.

Tackling tariff differentials

5.14 Around 18% of the fuel poor pay for electricity by a pre-payment meter and around 12% of the fuel poor pay for their gas by pre-payment meter. Households that use pre-payment meters typically pay around £55 more for their energy than customers paying by standard credit and £144 more than those who pay by direct debit.

However, pre-payment meter customers do cost more to service than customers using other payment methods, because of the cost of the meter itself and the administrative infrastructure that supports it. Ofgem estimated in its Domestic Retail Market Report in June 2007 that the costs to companies of servicing pre-payment meter customers for both fuels is £85 more than the costs for a direct debit customer.

5.15 The Ofgem Probe is also examining the costs of different payment methods. The premiums paid by both pre-payment and standard credit customers over direct debit have, on average, increased significantly in recent years, raising the question of whether such differentials do indeed now reflect costs. Ofgem is also seeking evidence of pre-payment customers switching to more expensive providers and possible actions that could be taken to address this. Ofgem intends to take a decision on whether further action is required in due course.

5.16 In the meantime, to ensure that suppliers comply with existing licence and other obligations on marketing their services, Ofgem has:

- required suppliers to provide a clear explanation (on websites and in the information provided to their customers), of the advantages and disadvantages of using prepayment meters, including that this method of payment may be more expensive than others.⁸
- announced a formal investigation into a potential breach of the marketing licence condition by npower and made clear that any other possible instances of mis-selling, in particular involving vulnerable customers will similarly be taken very seriously.

5.17 The Government announced in the Budget 2008 that the Secretary of State for BERR was prepared to use his existing statutory powers with a view to reducing any unjustifiable differential between the price of energy paid by prepayment customers and other forms of payment. Since then a number of suppliers have reduced the differential between their pre-payment meter and direct debit tariffs.

5.18 As part of a Probe into the energy market, Ofgem is currently investigating the reasons for tariff differentials charged for gas and electricity, also looking to establish to what extent they might vary according to the payment method. Should the Probe establish disadvantaged customer groups are being treated unfairly through tariff differentials the Government will look to Ofgem and the suppliers to come forward with proposals to reduce this disadvantage.

5.19 EU Directives require that any difference in terms and conditions for different

payment methods should reflect the costs to the supplier of the different payment systems. In light of the emerging evidence on payment differentials, BERR and Ofgem are considering how this requirement could be better reflected in suppliers' licences.

5.20 On 11 September, we also announced that we will work with energy companies and banks to increase the number of people on direct debits. We have asked the Financial Inclusion Task Force to work individually with the energy suppliers, Ofgem and other stakeholders to develop new ways to encourage greater use of direct debits. The Taskforce has been asked to report back in December with recommendations to ensure that more people can benefit from direct debit payments and to make bill payments easier and more affordable for vulnerable customers.

Debt and disconnection protection for consumers

5.21 In January 2008, Ofgem published its best practice review on debt and disconnection⁹. The focus of the review was to examine how suppliers deal with their customers, particularly low income and vulnerable customers, in relation to debt and disconnection, to ensure they have an appropriate level of protection.

5.22 This work, under Ofgem's Social Action Strategy, complements licence obligations on suppliers and Ofgem's wider work to meet its statutory duties relating to vulnerable customers. The review identified best practice among suppliers and set benchmarks for suppliers' performance in this area.

⁸ Further details are available on the enforcement section of Ofgem's website.

⁹ <http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Debt%20and%20disconnection%20best%20practice%20review.pdf>

It included strong messages for businesses to step up to the mark to ensure customers, particularly vulnerable customers, have adequate assistance to help them manage their energy bills. It included consumer research to examine consumers' experiences of debt and disconnection and an assessment of suppliers' communications with customers in debt and at risk of disconnection.

- 5.23 With rising levels of debt, continuing upward pressure on energy prices and changes to consumer representation, Ofgem has stressed the importance of suppliers retaining a strong focus on this area and continuing to make improvements in implementing the good practice guidelines on preventing debt and disconnection¹⁰.

Switching

- 5.24 In our last progress report we estimated that for 2004, if all customers were to switch to the best rate available to them, this would lift up to 200,000 households out of fuel poverty in the UK. We have since updated this analysis to examine the position in 2006. This analysis shows that of the 2.4m fuel poor households in England, around 750,000 of them could be removed from fuel poverty by switching to the best deal available to them (usually the cheapest direct debit tariff). The large increase in this measure between 2004 and 2006 is due to a number of factors, the main two being that more households are now "marginally" fuel poor (ie. need to spend just over 10% of income on energy to obtain an adequate standard of warmth) than were in 2004 and that the savings available from switching

can be greater than in 2004.

- 5.25 As switching can make a real difference to the costs consumers pay for their energy, it is important to understand why vulnerable consumers are often reluctant to switch supplier. Ofgem's research, as part of its Consumer First initiative, indicates that there are still barriers that prevent vulnerable customers from switching and getting a better deal and highlighted the role that trusted intermediaries could play in supporting vulnerable consumers to find the best tariff available to them.
- 5.26 To assist in addressing this, Ofgem carried out, earlier this year, a pilot project with the Citizens Advice Bureaux to raise awareness among hard to reach low-income consumers of the savings that can be made by switching supplier and/or payment method, to provide reassurance about and to assist in the switching process. The Government has agreed to fund national roll out of this project during 2008/09.

The Government's Environmental and Social Guidance to Ofgem

- 5.27 In June the Government published a consultation document on proposed changes to its Environmental and Social Guidance to Ofgem. The Guidance makes clear that the Government expects Ofgem to take a strong lead, in co-ordinating activity to help consumers vulnerable to fuel poverty benefit from competitive markets, particularly by helping consumers take advantage of the best tariffs available and by monitoring the development of energy companies' social programmes.

¹⁰ http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Preventing_Debt_and_Disconnection.pdf

Energy supplier social programmes

- 5.28 Energy supply companies also play an important role in tackling fuel poverty. They voluntarily provide a range of help to vulnerable customers through their social programmes. Each supplier offers a different form of assistance – for example, social tariffs, assistance with clearing debt, rebates, and fixed tariffs. Energy companies work in partnership with charities and interest groups and some offer ancillary services such as benefit entitlement checks. The Government is keen to encourage these innovative approaches.
- 5.29 In the Energy White Paper, published in May 2007, the Government challenged energy suppliers to deliver a proportionate programme of assistance to their vulnerable customers. The energy companies responded by increasing the level of assistance provided to vulnerable customers from £40m to around £56m, which benefited around 700,000 households. In August 2007, Ofgem published a review of the different initiatives undertaken by each supplier to assist their vulnerable and fuel poor customers to shine a light on the help available. This was updated in October 2007 and the Government has estimated that these measures removed around 70,000 households from fuel poverty across GB.
- 5.30 However, the Government believes that given the rises in energy prices at the start of 2008 coupled with a growing global demand for fossil fuels, vulnerable households need further help. The Chancellor therefore announced in the 2008 Budget that the Government was seeking a voluntary agreement with the energy suppliers to increase the level of assistance they provide their vulnerable consumers to £150m a year. This was delivered in April 2008 when individual agreements were secured with the six large energy suppliers operating in Great Britain to increase the collective value of their social programmes to at least £150m a year by 2010/11. Ofgem published in late July its guidelines about what type of activity would be included under this additional social spend. Depending on how the money is spent, this funding could remove up to around 100,000 households from fuel poverty.
- 5.31 At the Ofgem Fuel Poverty Summit in April suppliers agreed that there was more they could do to let consumers know about their social programmes and have since provided clear information on their website and other promotional material setting out the social tariffs and programmes they provide alongside the eligibility criteria for them.
- 5.32 They also agreed to provide and publish a direct phone number to route trusted intermediaries' calls to a specialist team to provide help and information for customers who are vulnerable or in fuel poverty to help them find the best available tariff and to offer any other help to which they may be entitled.

6 Action on incomes

6.1 Low income is the third contributor to fuel poverty. A wide range of action has been taken across Government to tackle poverty through improved incomes. Significant progress has been made in tackling pensioner poverty and child poverty, and the Government has redoubled efforts to address these challenges.

Incomes for vulnerable households

6.2 The UK Government has put in place a range of measures to tackle poverty and increase the incomes of vulnerable households.

6.3 Significant progress has been made in tackling pensioner poverty. Since 1998, 900,000 pensioners have been lifted out of relative poverty and 1.9 million pensioners have been lifted out of absolute poverty after housing costs are accounted for.

6.4 Pension Credit is a key part of the strategy to tackle pensioner poverty and is making a difference to the incomes of thousands of older people. Pension Credit means that people aged 60 or over need not live on an income of less than £124.05 a week for single people and £189.35 for couples. Pensioners with severe disabilities, caring responsibilities and certain housing costs may receive more. Pension Credit also rewards people aged 65 or over who have made modest provision for their retirement.

6.5 The Government has also invested in helping disabled people remain independent, by supporting the diverse needs of disabled people and carers. In 2008/09, over £16 billion of benefit payments will be administered by the Disability and Carers Service. There has also been progress in empowering more disabled people into work, with 48.4% of disabled people in 2007 in work compared to 42.4% in 2000.

6.6 Disability benefits paid to help with the extra costs associated with disability, principally disability living allowance (paid to people who qualify and claim before age 65) and attendance allowance (paid to people who qualify and who claim from age 65) are not means tested and are ignored in calculating income related benefits. They are paid to people in work as well as those who cannot work, at different rates according to the effect of disability on recipients' lives. Recipients of these benefits can set their own priorities for how to spend this money.

6.7 Those with low incomes may qualify for help with rent and council tax through Housing Benefit and Council Tax Benefit. They may also qualify for a top-up from income support. For example, they might receive a top-up to bring them to £86.35 a week if they qualify for the disability premium of £25.85, or £110.85 a week if they qualify for the severe disability premium (£50.35). The premiums paid to disabled people who have low incomes and qualify for income-related benefits are intended to contribute towards the extra living costs they may incur.

6.8 The Government has set itself ambitious targets to halve child poverty by 2010 and eradicate it by 2020. We have made significant progress towards these goals, not only halting the rising levels of child poverty in late 1990 but reversing that trend, so that, between 1998-99 and 2005-06 600,000 children have been lifted out of relative poverty in the UK. Joined up and sustained effort across Government has delivered a range of fiscal policies and public service reforms, backed up by substantial investment from successive Budgets and Spending Reviews. There have been increases in support and services to help parents, particularly lone parents, to overcome the constraints that may make work difficult. Since 1997 the Government has invested over £21 billion in early years and childcare services, enabling parents to return to work secure in the knowledge that their children are safe and being supported to learn and play. Labour market policies have helped many parents move from welfare into work. The number of children in workless households has fallen by over 400,000 since 1997. Since October 1998, the New Deal for Lone Parents has helped over half a million lone parents into work. Of these, 60 per cent are recorded as having entered sustained employment.

6.9 The Government remains firmly committed to its goal of eradicating child poverty in a generation. Even in a tight fiscal climate, this year's Budget committed a further £950 million to halving child poverty by 2010. Taken together, reforms announced in Budget 2007, the 2007 Pre-Budget Report and Comprehensive Spending Review, and Budget 2008 will lift around 500,000 children out of poverty. The Budget also allocated £125 million over the next three years to test new approaches to tackling child poverty. These will inform a new strategy to 2020, building on the best of current policy, pursuing new and innovative approaches, and drawing on the strengths of all partners.

Winter Fuel Payments

6.10 In addition to Government's wider action to increase the incomes of vulnerable households around 12 million people across the UK aged 60 and over received Winter Fuel Payments in the 2007/08 winter. The current rate is up to £200, with those over 80 (over 2.4 million people) receiving up to an extra £100. The Chancellor, in his Budget 2008 speech, announced an additional payment for winter 2008/09 of £50 for households with someone aged 60-79 and £100 for households with someone aged 80 or over. If Winter Fuel Payments were counted against fuel bills, we estimate they could remove a further 1 million households from fuel poverty in the UK.

Cold Weather Payments

6.11 Cold Weather Payments are payable by the Government to poorer pensioner and other eligible households in weeks of extremely cold weather. Over the last five years the number of annual payments made has averaged around 500,000. The Government has committed to tripling the payments from £8.50 a week to £25 for this coming winter.

Benefit Entitlement Checks

6.12 Benefit Entitlement Checks are increasingly becoming part and parcel of fuel poverty programmes and can result in significant increases in incomes for vulnerable households.

6.13 In 2007/8 Warm Front began offering Benefit Entitlement Checks to all applicants who apply to the Scheme. This has allowed the Scheme to perform checks to almost 50,000 applicants, more than double those performed the previous year. Of these checks, 30% located a benefit to which the client was eligible but not currently claiming. The average value of these unclaimed benefits was £28.43 per week, or £1,478 per year.

6.14 In Scotland currently all pensioner households are offered a Benefit Entitlement Check at the point of application to either the Central Heating Programme or the Warm Deal, to ensure all eligible applicants are approved and to maximise incomes. Last year this generated a £1 million increase in benefits received. From August this year this offer will be extended to all applicants, not just pensioners.

6.15 Since August 2004 the Home Energy Efficiency Scheme in Wales has offered a Benefit Entitlement Check to all applicants to the Scheme. In 2007/08 3,357 households took up the offer of a check. Where additional benefits were identified it was estimated that households were eligible for an average of £17.88 per week in extra benefit income. This is equivalent to an annual total increase of £1,513,788 to those households.

6.16 The income maximisation service provided by Warm Zones Limited in its local initiatives has secured almost £10 million of additional welfare benefits, increasing the annual income of successful claimants by an average of £2,500.

7 Information and campaigns

Improving Targeting

- 7.1 As outlined earlier in this report the Government and the energy suppliers provide a range of programmes and support for those vulnerable to fuel poverty. It is vital that this help gets to those who need it most. Energy companies have told us that they can find it difficult to reach vulnerable customers that could benefit from social programmes and the energy efficiency measures they offer under CERT. In the run up to the publication of the 'Energy White Paper: meeting the energy challenge' the Government considered what additional measures might be included in the Energy Bill to help alleviate fuel poverty. One of these measures was legislation to allow the sharing of Government data with energy companies to assist them reaching vulnerable customers.
- 7.2 Data protection and human rights issues prevented us from taking the data sharing proposal further in the Energy Bill. In the meantime, the Government, the energy suppliers and eaga plc – the Warm Front Scheme Manager – worked together to contact 250,000 Pension Credit recipients to offer insulation and heating measures. More recently, the Government amended the Pensions Bill to allow the sharing of data on the poorest pensioners with energy suppliers, helping; allowing them to direct their social programmes to those who most need help. The legislation has not yet completed the Parliamentary process.

Keep Warm Keep Well

- 7.3 'Keep Warm Keep Well' forms part of the Department of Health's integrated communications plans to help relieve winter pressures on the National Health Service by targeting relevant and effective messages to at risk groups.
- 7.4 The campaign has been integrated into cross government winter warmth/fuel poverty activities, with a campaign website developed on Directgov¹¹. The campaign launched in October 2007 provided advice to vulnerable people (financially disadvantaged older or disabled people and their carers and young families on low incomes) on the health benefits of keeping warm in winter and eating and exercising healthily. It also included information about and encouraged take-up of grants and benefits.
- 7.5 Over two million information booklets were ordered by the NHS, GP surgeries, pharmacists, local authorities, Citizens Advice Bureaux and voluntary organisations for distribution to their local communities. Public relations activity included coverage of the campaign messages in the media. The Department of Health also promoted the campaign to NHS and social care staff in Departmental bulletins and encouraged NHS and social care management to support their staff in delivering the campaign locally.

¹¹ <http://campaigns.direct.gov.uk/keepwarmkeepwell/>

- 7.6 Overall the campaign resulted in a four-fold increase in applications to Warm Front from directly health-related projects, increasing from under 2% to 7% of all Warm Front referrals and representing over 21,000 households. In the North West and South West over 10% of the total Warm Front referrals came from health initiatives and in London over 20%.

Save money, save energy campaign

- 7.7 To make sure people across the country can take advantage of the help on offer under the Home Energy Savings Programme announced on 11 September, the Government will run a national TV and press information campaign to publicise the help available. The Energy Saving Trust will act as a single point of contact to signpost people to suitable organisations which can provide further advice on benefits, energy efficiency improvements and help available with electricity and gas bills. As part of the same campaign, the Government has been working jointly with energy suppliers to put together advice about what people can do to reduce their bills and help the environment.

8 Stakeholder Actions

The Government recognises that tackling fuel poverty requires the engagement of stakeholder organisations in the private, voluntary and community sectors. This section provides an update on the activities of those organisations.

Age Concern

- 8.1 Age Concern has been campaigning for measures to tackle fuel poverty, such as the introduction of mandatory social tariffs for vulnerable households and a permanent increase in the Winter Fuel Payment.
- 8.2 In addition to the charity's national campaigning activity, local and regional Age Concerns have continued to work within their local communities to provide practical support to older people. Many Age Concern organisations provide local information and advice services and help older people claim benefits they are entitled to. As part of this Age Concern also publishes a number of free fact sheets, including 'Help with heating', 'A brief guide to money benefits' and 'Making the most of your money', which are available through the Age Concern Information Line (freephone 0800 00 99 66) or from the Age Concern website (www.ageconcern.org.uk).

EEPH (Energy Efficiency Partnership for Homes)

- 8.3 The EEPH (the Partnership) is an independent, voluntary network of over 500 UK organisations involved in the delivery of energy saving products and services to consumers in the household sector. It is funded by Defra and facilitated by the Energy Saving Trust.

- 8.4 The Partnership has a Fuel Poverty Strategy Group which shares information between organisations and sectors, and stages regular reviews of both Government and non-Government initiatives. In the last year the group again staged an annual conference looking at the energy efficiency supply chain sectors and considering where future initiatives should be focussed; and carried out research into the geographic equity of fuel poverty resources. The research highlighted a lack of available 'fuel poverty need' data as a barrier to effective targeting.
- 8.5 Within the Fuel Poverty Strategy Group, the Hard-to-Treat Homes Subgroup focuses on reducing the incidence of fuel poverty in solid wall homes and in properties that are off the gas network, by improving the communication of best practice and encouraging technical developments. This year the group presented detailed views on the subject to the Fuel Poverty Advisory Group and to the consultation about the future of the Carbon Emissions Reduction Target.
- 8.6 The Partnership has recently initiated and completed an investigation into the level of local authority awareness of the Government's Housing Health and Safety Rating System (HHSRS). The study showed that most local authorities are not aware of their obligations under HHSRS and that a major opportunity exists to promote fuel poverty eradication through its enforcement. The Partnership has since produced and distributed a guidance document to local authorities to inform them of their substantial powers and to encourage action against landlords where necessary.

- 8.7 Further details can be viewed on the Partnerships website:
<http://www.eeph.org.uk/>.

Energy Saving Trust

- 8.8 The Energy Saving Trust is an independent company funded by both government (Defra, the Department for Transport, BERR and the Devolved Administrations) and the private sector.
- 8.9 The Energy Saving Trust offers advice to local authorities and housing associations on how to implement sustainable energy policies and measures. 1.8% of all enquiries to this advice service during financial year 2007-08 related to fuel poverty. The Energy Saving Trust also offers energy efficiency, renewables, personal transport, waste and water advice to householders via the Act on CO2 advice line, its network of regional advice centres, and its consumer web-site. Evaluation of the service in 2007-08 suggests that 1.3 million consumers took some action on climate change after receiving Energy Saving Trust advice.
- 8.10 In April the Government announced the Green Neighbourhoods initiative which is now being developed by the Energy Saving Trust. Under this initiative up to 100 neighbourhoods in England will be given a 'green makeover' with the aim of reducing their carbon footprints by more than 60 per cent. There is a requirement that there be a focus on hard to treat properties in the scheme which is thus likely to incorporate some fuel poor households.

- 8.11 The Welsh Assembly Government provided funding to the Energy Saving Trust (EST) in 2007 to accelerate development of the Energy Saving Trust Advice Centre (ESTac) in Wales. The ESTac was launched by the Minister for Environment, Sustainability and Housing in February 2008. The accelerated rollout in Wales will enable households in Wales to benefit from EST's enhanced service for householders, communities and micro businesses for energy efficiency and microgeneration information and advice and the Green Homes Service in 2008.

Energywatch

- 8.12 energywatch has contributed to the debate on social tariffs by commissioning independent analysis of the energy suppliers' social tariffs. A full copy is available at:
- 8.13 www.energywatch.org.uk/uploads/Proportionality_of_suppliers_social_tariffs_13_January_2008.pdf
- 8.14 energywatch and Castle Vale Community Housing Association (CVCHA) in Birmingham have formed a partnership to offer 'on the ground' intensive support and assistance to pre-payment meter (PPM) users in changing their energy supplier. A report which details the findings was due to be published in summer 2008 and form the basis of a toolkit for other housing associations to use to run similar projects.
- 8.15 In October 2008, energywatch will merge with Postwatch and the National Consumer Council to form a new, consumer representation and advocacy body. The new organisation is being created as part of the Consumers, Estate Agents and Redress Act 2007.

Help the Aged

- 8.16 Help the Aged addresses fuel poverty from two angles. It calls on public authorities to increase funding for fuel poverty reduction programmes and it highlights behavioural and lifestyle issues, with messages to older people about what they can do to better prepare for cold weather and to reduce its health impacts.
- 8.17 The Charity's regional staff have been working to engage local government bodies on fuel poverty issues in line with the new Local Government Performance Framework and its supporting National Indicators structure.
- 8.18 Since 1999, the British Gas Help the Aged Partnership has tackled fuel poverty. In 2003 it set up a national Benefits Advice Programme, which aims to maximise the incomes of older people by providing free face-to-face benefits advice. To date, this programme has advised over 45,000 older people and identified over £21 million in unclaimed benefits. Additionally, through the Partnership's annual winter campaign over 650,000 free room thermometers and 200,000 winter packs have been distributed to older people throughout Britain. The packs include practical tips and tools for claiming benefits and staying warm and well in winter.

National Energy Action (NEA)

- 8.19 National Energy Action (NEA) continues to assist Government in the achievement of its fuel poverty objectives. The charity's activities during the year have concentrated on:
- identifying ways to provide affordable warmth to hard-to-treat properties;

- improving the effectiveness and targeting of Warm Front and other energy efficiency programmes;
- exploring the connections between the social, economic and environmental aspects of fuel poverty; and
- engaging administrations across the UK to encourage them to address fuel poverty.

8.20 Some examples of work during the year have included work funded by Defra to look at the main demographic shifts in England and to explore what these could mean for the future targeting of fuel poverty alleviation programmes. The findings (available at www.nea.org.uk) suggest that increasing fuel prices, coupled with an ageing population and a trend towards single person households, mean that fuel poverty in England will continue to increase without additional and significant investment. The NEA organised, in partnership with Defra and npower, the Affordable Warmth – Sustainable World award scheme, which provided grant assistance to nine regional agencies to run an innovative project, or enhance an existing project, that demonstrated achievement:

- partnership-working at a regional or local level;
- integrating sustainable energy solutions into fuel poverty programmes;
- appointing energy efficiency champions; or
- delivering solutions in hard to heat homes or rural areas.

8.21 The aim of the scheme was to highlight successful initiatives by local authorities, health and social care agencies, voluntary and statutory agencies, community groups and other key organisations as examples of good practice. The national winner was Wakefield MDC with their Hotspots initiative involving the local authority, the Fire Service, Pensions Service, the PCT and social services.

8.22 NEA has also continued to deliver seminars to SureStart workers around the theme of fuel poverty and children's health, initially supported by Defra and more recently by the Scottish Power Energy People's Trust. Sure Start local programmes offer a range of early learning, health and family services to some 400,000 children living in disadvantaged areas, including 30% of children under the age of four living in poverty. Sure Start teams comprise health and social care professionals, including physiotherapists, speech therapists, community nurses and social workers. The seminars enable participants to:

- identify those at risk of ill health through living in cold damp homes;
- promote energy efficiency practices;
- provide information on the causes and effects of fuel poverty;
- refer householders to agencies and organisations which offer advice and/or assistance; and
- establish a greater dialogue with tenant, resident and community groups.

9 Advisory Groups

Fuel Poverty Advisory Group - England

9.1 The Fuel Poverty Advisory Group for England is an Advisory Non-Departmental Public Body, sponsored by Defra and BERR and comprising a wide range of organisations. Its terms of reference require it to:

- consider and report on the effectiveness of current policies in delivering reductions in fuel poverty and the case for greater coordination;
- identify barriers to the delivery of reductions in fuel poverty and to the development of effective partnerships, and proper solutions;
- consider and report on any additional policies needed to deliver the Government's targets;
- enthuse, and encourage, key players to tackle fuel poverty; and
- consider and report on the results of the work to monitor fuel poverty.

9.2 The Government's response to the recommendations in FPAG's Sixth Annual Report¹² is at chapter 10 below.

The Fuel Poverty Advisory Group for Wales

9.3 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. A public appointments exercise is underway to appoint a new Chair, who is expected to take up the appointment in autumn 2008.

The Scottish Fuel Poverty Forum

9.4 The Scottish Fuel Poverty Forum was re-convened at the end of May 2008. It has met seven times since then and will report to Ministers shortly. The Forum has been asked to advise the Scottish Government on how it can improve progress towards the target to eradicate fuel poverty as far as is reasonably practicable by 2016, within the available public resources.

9.5 Specifically, the Forum should:

- Consider the findings of the review of fuel poverty programmes to date, and any other evidence required.
- Advise Ministers on options for refocusing the policy and funding to better achieve the target of eradicating fuel poverty.
- Recommend changes to be made in the short term, within current legislative powers and delivery mechanisms.
- Recommend changes to be made in the longer term, which might require changes to legislation and/or delivery mechanisms.
- Recommend a long term role and remit for the stakeholder forum in monitoring progress on eradicating fuel poverty.

¹² <http://www.berr.gov.uk/files/file45365.pdf>

The Fuel Poverty Advisory Group for Northern Ireland

- 9.6 The Fuel Poverty Advisory Group in Northern Ireland published its third annual report in September 2008. The report acknowledged the substantial progress made and provides a challenge across Government Departments to develop or adjust policy in order to alleviate fuel poverty.

10 Government Response to FPAG Recommendations

- 10.1 The Fuel Poverty Advisory Group is an Advisory Non-Departmental Public Body, sponsored by Defra and BERR and comprising a wide range of organisations. Its terms of reference require it to assess and report on the Government's fuel poverty strategy. FPAG's sixth annual report¹³ published in March 2008, contained a number of recommendations. These are repeated below along with the Government response.
- 10.2 A number of Key Recommendations were included in FPAG's annual report and responses to each of them are provided below. A number of additional comments were included in the report which relate to the ongoing work across Government. Action across a number of these areas is reflected in the main body of the report.
- 10.3 **That Warm Front annual expenditure in 2008 – 2011 be increased to at least its 2007 – 2008 level of £350m.**
- 10.4 **Response:** During the current spending period £2.3 billion was committed via the Warm Front Scheme and the Carbon Emissions Reduction Target, to help low income and elderly households improve the energy efficiency and heating systems in their homes. Despite these considerable resources committed to tackling fuel poverty, rising energy price rises have made the challenge of tackling fuel poverty more difficult. Government has therefore announced that there will be additional resources available for spending on energy efficiency and other programmes in low income and pensioner households over the 2008-11 period. This includes an increase in the Warm Front budget of £74m taking it to £874m over the current spending period and a proposal to expand energy suppliers obligations under the Carbon Emissions Reduction Target by 20%. There is also a proposed new obligation on suppliers and electricity generators to install community-based energy efficiency measures through a new Community Energy Savings Programme worth £350m targeted at the country's poorest communities.
- 10.5 **That there be progress on pre-payment prices and social tariffs and programmes; and tariff prices for forms of payment (such as cash or cheque) other than direct debit.**
- 10.6 **Response:** In respect of customers using prepayment meters, the Government announced in the Budget that it is prepared to legislate with a view to reducing the differential between pre-payment and other forms of payment, should Ofgem's Probe reveal that pre-payment customers are suffering a disadvantage. However, in the first instance the Government will look to Ofgem and the energy suppliers to provide the solution.
- 10.7 Ofgem is currently conducting a Probe into the energy markets, which includes looking at tariff differentials to make sure that the different payment methods are fair and justified. It released initial findings at the Fuel Poverty Summit in April, and is already taking action to ensure that energy suppliers provide clear information on their websites to ensure that customers can make informed choices about the different payment methods. Ofgem will report on its Probe in the near future and consider then whether further action is required.

¹³ <http://www.berr.gov.uk/files/file45365.pdf>

- 10.8 The Government also announced that it has asked the Financial Inclusion Task Force to work individually with the energy suppliers, Ofgem and other stakeholders to develop new ways to encourage greater use of direct debits. The Taskforce has been asked to report back in December with recommendations to ensure that more people can benefit from direct debit payments and to make bill payments easier and more affordable for vulnerable customers.
- 10.9 **Recommendation:** that there be a drive to secure the installation of low-cost, pay-as-you-go smart meters.
- 10.10 **Response:** The Government shares FPAG's view that smart metering may reduce the costs of pay-as-you-go tariffs, both of themselves and in relation to other tariffs. The Government has introduced amendments to the Energy Bill currently before Parliament that would enable it to introduce smart metering to domestic consumers if a positive decision to proceed is taken.
- 10.11 The impact assessment work completed to date has identified a number of areas for further work and the Government is aiming to complete work on both the qualitative and quantitative evidence base over the coming months. Before taking decisions the Government also wants to take into account any initial results from the Ofgem trials (the Energy Demand Research Project). Decisions will therefore be made after the second report from the trials, which is due in November 2008.
- 10.12 **That Ofgem give higher priority to the interests of low income customers**
- 10.13 **Response:** Ofgem has an important role to play in tackling fuel poverty and its commitments to vulnerable customers are already reflected in its statutory duties. The Government is, however, consulting on its Environmental and Social Guidance to Ofgem with a view to strengthening its contribution to reducing fuel poverty. Ofgem is currently looking at the costs of different payment methods to determine whether intervention is required.
- 10.14 **That the Ofgem Probe into energy markets will fully assess where the extra expenditure by electricity and gas consumers has gone.**
- 10.15 **Response:** Ofgem's energy supply markets Probe was announced on 21 February and its initial findings will be reported in the near future. These will include a number of actions in assessing how the market is working for vulnerable and fuel poor customers and whether further initiatives can be identified.
- 10.16 **That there be more drive by Government to ensure that benefits take-up is increased, in particular through automated take-up of Council Tax benefits for those in receipt of other benefits or tax credits.**
- 10.17 **Response:** Improving take-up of Council Tax Benefit for pensioners (where take-up is lowest) is a priority for the Government. We already provide data to local authorities to identify people getting Pension Credit but not Council Tax Benefit, so that local authorities can target those people for take-up purposes.
- 10.18 People applying for Pension Credit can already access Council Tax Benefit (and Housing Benefit) during a single phone call to The Pension Service. The Pension Service fill in a short claim form on the

customer's behalf. From October 2008 this process will be streamlined, because no claim form will be required. The CTB/HB information will be collected by The Pension Service and automatically passed to the relevant local authority to assess entitlement.

10.19 In the longer term, we want to ensure that Council Tax Benefit is delivered as accessibly, simply and securely as possible. We are continuing research into how we could make better use of data to identify those who are eligible for Council Tax Benefit and deliver their entitlement more proactively. However there are many issues to consider here, including the impact on fraud and error and issues of practicality and affordability, as well as the sensitivities around data sharing and security.

10.20 We plan to carry out more research with some local authorities, in conjunction with The Pension Service, to test the use of data held across government departments in order to build up profiles of people likely to be entitled to Council Tax Benefit but not claiming.

10.21 **That the Government PSA and local government target frameworks, along with a cross-Government strategy and business plan, give adequate priority to fuel poverty.**

10.22 **Response:** A revised approach to Public Service Agreements was introduced in the Comprehensive Spending Review 2007, when the Government decided to rationalise the number of PSAs to 30 from 110 during the previous spending review period. The aim of the reduction in the number of PSAs across Government was to accelerate improvement in our priority outcomes and to make it easier for key objectives to be delivered by Departments working together. For

instance action to tackle fuel poverty cuts across a number of departments and is linked to action tackle pensioner poverty and child poverty.

10.23 Fuel Poverty is no longer a stand alone PSA, but is an important part of the delivery agreements for the PSAs on Child Poverty (led HMT), Later Life (led by DWP), Health and Wellbeing (led by DH). However, for the time being both BERR and Defra will continue reporting on the pre-2008 stand alone PSA on fuel poverty in their annual reports.

10.24 Measurements of fuel poverty also feature as an indicator within both Defra's and BERR's own departmental Performance Frameworks. The introduction of National Indicator 187 means fuel poverty also now exists in the local government framework.

10.25 **That information on households be shared, with appropriate safeguards, between Government, local authorities and energy companies, to help those in need.**

10.26 **Response:** The Department for Work and Pensions has amended the Pensions Bill to allow data to be shared with energy suppliers to help them identify poorer pensioners who are at risk of fuel poverty. The legislation has not yet completed the Parliamentary process. If passed, this legislation does not come into force until 2009, and in the meantime, the Government will be considering how best to help vulnerable households this winter to cope with rising energy prices.

10.27 We will continue to look into the possibility of sharing wider benefits data with energy suppliers once we have reviewed outcomes from sharing Pension Credit data as proposed in the Pensions Bill.

11 The Way Forward

11.1 The UK Government and the Devolved Administrations are already committing considerable resources to tackling fuel poverty. We are now, in response to rising energy prices, committing additional resources to tackling fuel poverty.

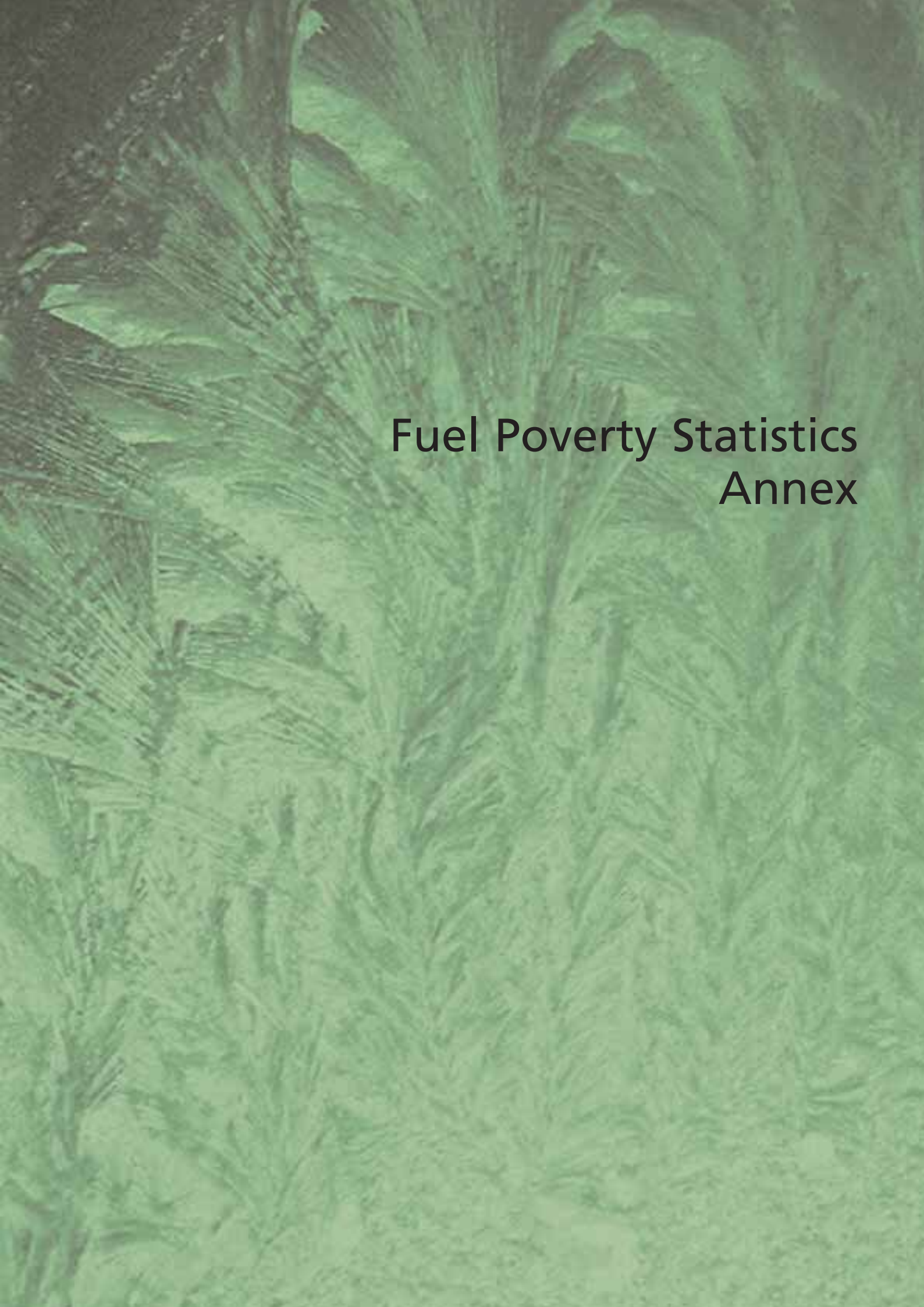
11.2 We will:

- increase the Warm Front Budget by £74m over the next two years;
- take forward our proposal to expand energy suppliers' obligations under the Carbon Emissions Reduction Target;
- take forward a proposed new obligation on suppliers and electricity generators to install community-based energy efficiency measures through a new Community Energy Savings Programme worth £350m targeted at the country's poorest communities;
- treble the cold weather payments for this winter from £8.50 to £25 a week;
- work with energy companies and banks to increase the number of people using direct debit payments; and
- consult on legislation, if having considered the evidence, we consider that this is necessary to ensure that customers using prepayment meters do not face unjustifiably high tariffs.

11.3 The UK Government and the Devolved Administrations will continue to keep the Strategy under review and to explore options to mitigate the impact of any future energy price rises on those vulnerable to fuel poverty. We will continue to do all that we reasonably can to alleviate fuel poverty across the UK.

Glossary

BERR	Business, Enterprise and Regulatory Reform
CEEF	Community Energy Efficiency Fund
CERT	Carbon Emission Reduction Target
CSR	Corporate Social Responsibility
CLG	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 (now BERR)
DWP	Department for Work & Pensions
EEC	Energy Efficiency Commitment
EEPfH	Energy Efficiency Partnership for Homes
EHCS	English House Condition Survey
ERA	Energy Retail Association
EST	Energy Saving Trust
FPAG	Fuel Poverty Advisory Group
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



Fuel Poverty Statistics Annex

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1 Fuel poverty – a brief introduction

This section of the annex gives an overview of fuel poverty, including what it is and how it is measured.

1.1 What is Fuel Poverty?

A household is said to be in fuel poverty if it needs to spend more than 10% of its income on fuel to maintain an adequate level of warmth (usually defined as 21 degrees for the main living area, and 18 degrees for other occupied rooms). This broad definition of fuel costs also includes modelled spending on water heating, lights, appliances and cooking.

The Fuel Poverty Ratio is defined as:

$$\text{fuel poverty ratio} = \frac{\text{fuel costs (usage x price)}}{\text{income}}$$

If this ratio is greater than 0.1 then the household is counted as being in **Fuel Poverty**.

Income

Two different classifications of incomes are used, and from these two different fuel poverty ratios are calculated. The official headline figure uses the **full income definition** whilst the **basic income definition** is also produced. For both definitions, income is measured net of income tax and national insurance.

- The basic income is a measure of household income and is calculated by adding the personal incomes of every member of the household together plus any benefit payments that the household receives (from private source, state benefits and savings) but excludes income related directly to housing;
- The full income definition is the official headline figure. In addition to the basic income measure, it includes income related directly to housing (i.e. Housing benefit, Income Support for Mortgage Interest (ISMI), Mortgage Payment Protection Insurance (MPPI), Council Tax Benefit (CTB)).

Fuel Costs

Fuel costs are modelled, rather than based on actual spending. They are calculated by combining the **fuel requirements** of the household with the corresponding **fuel prices**. The key goal in the modelling is to make sure that the household achieves the adequate level of warmth set out in the definition of fuel poverty whilst also meeting their other domestic fuel requirements.

Fuel prices per unit are calculated using data supplied by BERR at a regional level and split by payment type. A household's **location**, **fuel mix** (gas, standard electricity, economy7 electricity, heating oils etc.) and **fuel payment method** (direct debit, standard credit and pre-payment) are matched against the fuel price data to give the cost per unit of fuel required.

The household fuel consumption requirements are modelled based on a number of factors including:

- The size of the property;
- The energy mix usage of each household. Typically around 55% of energy is used for space heating, 30% for lights and appliances, approximately 10% for water heating, and the remainder for cooking;
- The heating regime applied. There are currently three regimes:
 - a 'standard heating regime' where the heating is assumed used only in the evening and weekend and is aimed at those who leave the house during the day (for work, study etc.);
 - a 'full heating regime' where the household is heated continuously and is applied mainly to those who do not leave the house during the day (the disabled, sick, unemployed etc.); and
 - a 'partial heating regime' applied for people living in houses larger than their needs which assumes only parts of the house are heated at any one time.
- The energy efficiency of the household.

Relative effects

This last variable, the energy efficiency of the household, is an important factor affecting the fuel requirement of a household. It is also one of the main variables relating to energy consumption that can be affected by intervention of energy efficiency measures including:

- EEC, the Energy Efficiency Commitment;
- CERT, the Carbon Emission Reductions Target which replaced EEC in April 2008; and
- Warm Front.

Other factors relating to fuel requirement are harder to change so often fuel poverty can be considered to be an interaction of three main factors only:

- The energy efficiency of the dwelling;
- The cost of energy; and
- Household income.

1.2 Measurement and Data Sources

The UK Picture

Fuel Poverty is a partially devolved issue with each separate administration having their own targets. The main reason for the partial devolution is that the devolved administrations have the power to affect certain aspects of fuel poverty policies (such as energy efficiency programs) but not others (incomes and market conditions, which impact on fuel prices)

- In England fuel poverty is modelled from the **English House Condition Survey (EHCS)**;
- In Scotland, the **Scottish House Condition Survey (SHCS)** is used to model fuel poverty. The report uses the definition of fuel poverty set out in the Scottish Fuel Poverty Statement 2002. This definition is similar to that used in England. The main difference in the Scottish definition is the more stringent interpretation of a satisfactory heating regime for pensioners, long-term sick and disabled households, meaning the adequate standard of warmth is achieved at a higher temperature for these groups;

- The **Living in Wales** survey, which uses a comparable methodology to England, is used to calculate figures for Wales;
- The **Interim House Condition Survey** and a method very similar to that used in England is used to calculate the Northern Ireland fuel poverty levels.

Scotland, Wales and Northern Ireland each publish reports on their national level of fuel poverty. Results for England are published as part of the UK Fuel Poverty Strategy which also collates information from across the UK.

From here on, this chapter will refer only to England. More details of the devolved reports can be found at the links below:

- Scotland:
<http://www.scotland.gov.uk/Topics/Statistics/SHCS>
- Wales:
<http://new.wales.gov.uk/topics/housingandcommunity/research/fuelpoverty2004/?lang=en>
and <http://new.wales.gov.uk/about/aboutresearch/social/ocsropage/living-wales/?lang=en>
- Northern Ireland:
http://www.dsdni.gov.uk/index/hsdiv-housing/fuel_poverty.htm

1.3 The English House Condition Survey

The EHCS is a national survey of housing in England, commissioned by the Department of Communities and Local Government. It covers all tenures and involves a physical inspection of properties by professional surveyors. The information obtained through the survey provides an accurate picture of the type and condition of housing in England, the people living there, and their views on housing and their neighbourhoods.

The EHCS consists of a number of component surveys, outlined below.

- **Interview Survey:** An interview is first conducted with the householder. The interview topics include: household characteristics, satisfaction with the home and the area, disability and adaptations to the home, work done to the property and income details;
- **Physical Survey:** The interview is followed by a visual inspection of the property, both internally and externally, by a qualified surveyor. Data collected includes the number and type of rooms and facilities contained in the property, the condition of a wide range of aspects of the physical structure, details of the heating systems, and parking provision, and assessment of neighbourhood quality;
- **Market Value Survey:** This is a desk-based exercise providing two market valuations for each of the core cases. The first gives the market value of the property in its current condition. The second gives the valuation if necessary repairs (identified from the Physical survey) were undertaken. Valuers also provide information about the housing market in the immediate neighbourhood in which the property is situated;
- **Private Landlord Survey:** When the Interview Survey identifies that a property is privately rented, the interviewee is asked for permission to approach the landlord. When permission is granted, and the landlord agrees to be interviewed, a follow-up interview takes place. The survey collects information on landlord experiences and attitudes.

The EHCS sample size is around 8,000 dwelling per year. To allow in depth subgroup analysis needed for meaningful fuel poverty results two years worth of data are combined together to increase sample sizes. The resultant dataset has approximately 16,000 lines of data, comprising information across a range of variable retrieved from the four parts of the survey listed above.

The latest available data is for 2006. This reporting lag is due to the time it takes to administer and validate the survey results.

For more information about the EHCS, see:

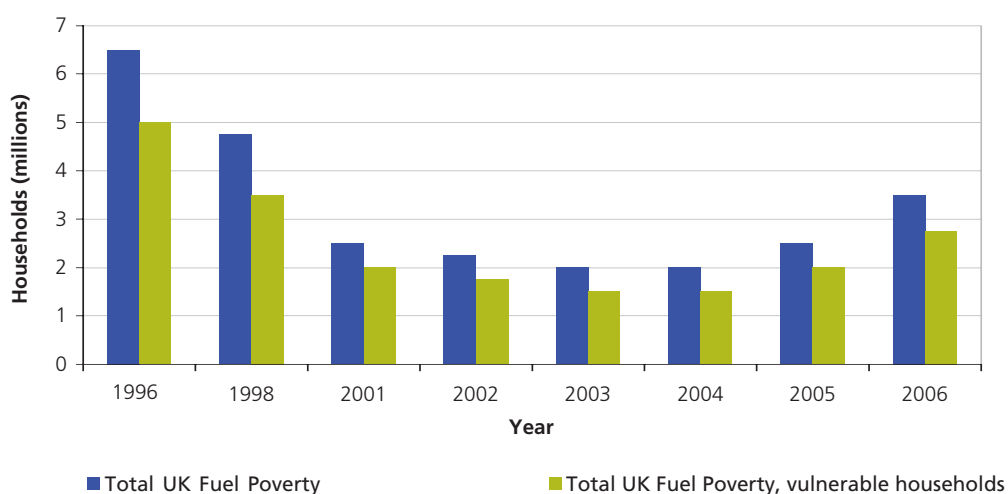
<http://www.communities.gov.uk/housing/housingresearch/housingsurveys/englishhousecondition/>

2 Fuel poverty – Headline numbers, 2006

2.1 UK

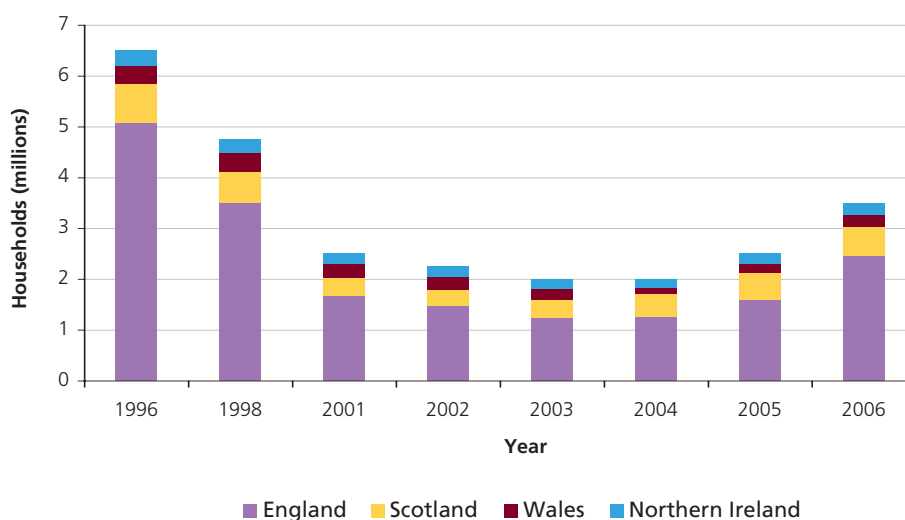
The estimated number of households in fuel poverty in the UK rose between 2005 and 2006 by around 1 million, to stand at around 3.5 million (around 14% of all households). This is based on latest figures for England, Scotland and Northern Ireland, combined with projected figures for Wales (from a base of 2004). In 2006, around 2.75 million vulnerable households in the UK were fuel poor, an increase from around 2 million the previous year. A vulnerable household is one that contains the elderly, children or somebody who is disabled or long term sick.

Chart 1 – Fuel poverty in the UK, all households and vulnerable, 1996-2006



The increase in fuel poverty since 2004 has largely been caused by price rises over that period. For some households, price rises have been partially offset by rising incomes and improvements in the energy efficiency of their home over the same period, therefore reducing their impact. However, the effect of price rises since 2004 has far outweighed the impact of increasing incomes and energy efficiency. More detail on rising prices is given in section 3.3 and further information on the relative effects of each component of fuel poverty in section 3.1 of this annex.

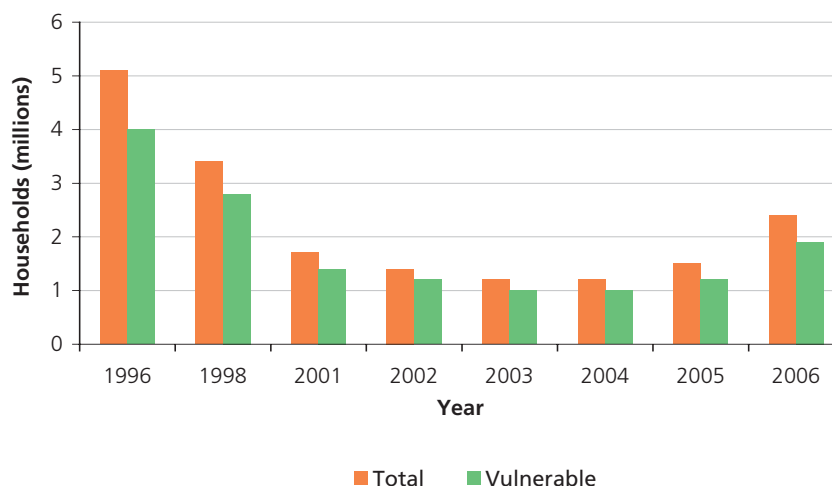
Chart 2 – Fuel poverty by country, 1996-2006



2.2 England

Chart 3, below, shows how many households were living in fuel poverty in England between 1996 and 2006:

Chart 3 – Fuel poverty in England, 1996-2006



In 2006, there were around 2.4 million households living in fuel poverty (around 11.5% of all households) in England, a rise of around 0.9 million households. As with the UK, this rise is due to the effect of increasing energy prices.

The general pattern of fuel poverty in vulnerable households over the 11 year period in England is similar to that for the UK. In 2006, there were around 1.9m vulnerable households in fuel poverty (around 13% of all vulnerable households), an increase of around 0.7m compared with 2005.

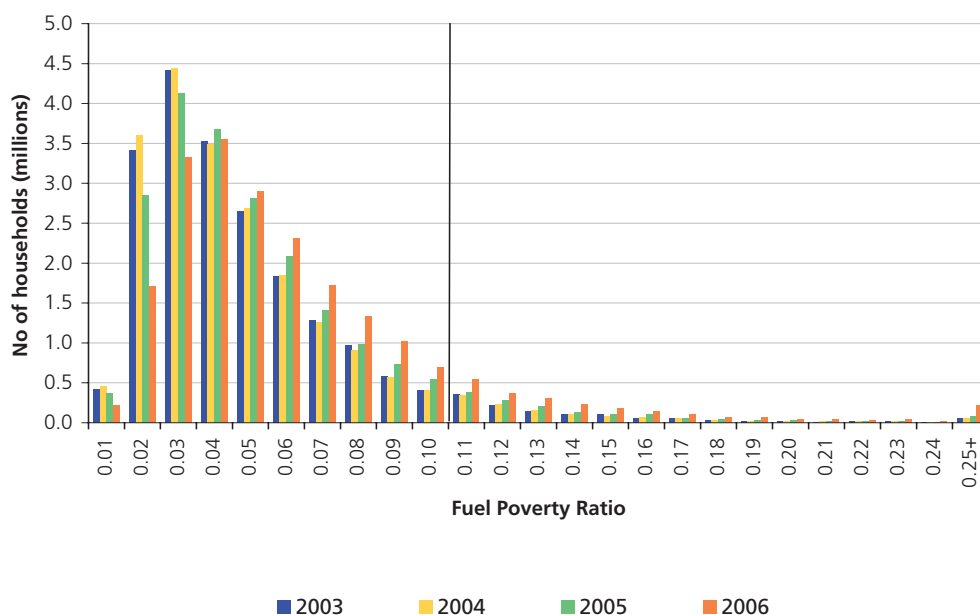
2.3 Fuel poverty distribution, England

The measurement of fuel poverty uses the ratio shown in section 1.1:

$$\text{fuel poverty ratio} = \frac{\text{fuel costs (usage x price)}}{\text{income}}$$

A household whose ratio is greater than 0.1 is defined as fuel poor. To further illustrate the impact of rising prices, it is interesting to view the distribution of fuel poverty ratios of English households and their movement over time. This is shown in chart 4 below:

Chart 4 – Fuel poverty ratios – required spend on energy as a proportion of income, 2003-2006¹



In 2003, the mode (or peak) of the distribution showed a household fuel poverty ratio of around 3%. As prices have risen, the distribution has become flatter and in 2006, the mode has increased slightly, to 4%, however the number of households with ratios between 5 and 10% has risen in recent years (from around a quarter of all households in 2003 to around a third in 2006). While some households have moved into fuel poverty, many households to the left of the 10% line have been shifted closer towards it. The effect of this is that a 1% increase in prices would now push more people into fuel poverty than it would have done in 2003.

¹ A change to the modelling of missing income variables in 2006 leads to a “spike” in the number of households at the extreme right (those required to spend 25% of more of income on energy to obtain an adequate standard of warmth). This is due to a reduction in the level of imputation that is undertaken as a result of the change. More information can be found here: <http://www.berr.gov.uk/files/file48039.pdf>

3. Contributions to change in fuel poverty 1996-2006

3.1 Separation of the effects

Between 1996 and 2006, the number of fuel poor households in England has fallen from 5.1m to around 2.4m, a fall of over 2.6m.

Table 1 – fuel poverty in 1996 and 2006

Year	Number of households fuel poor (m)	% of households fuel poor
1996	5.1	26.0
2006	2.4	11.5

As set out below, the most influential factor affecting the number of fuel poor households over the period is rising incomes. The second largest factor, which partly offsets the effect of incomes, is fuel prices. In comparison, aggregate energy efficiencies of dwellings have a relatively small effect, although the impact can be highly significant for those households that benefit from efficiency improvements.

It is difficult to describe the relative effect of each component (income, fuel prices and energy efficiency) in terms of the number of households moved into or out of fuel poverty over this period, due to the increase in the number of households since 1996 (and other demographic changes).

Another way to look at the impacts is to describe their relative factor over this period, expressed as a fraction of the total change. If the total change in fuel poverty (i.e. 2.68 million drop from 1996 to 2006) is thought of as -1, then the factors given for each component will add up to -1 (or 1 if fuel poverty has risen – alternatively, think of -1 and 1 as being -100% and 100%).

Considering the relative effects on this basis for each of the components produces the following results for the period 1996 to 2006:

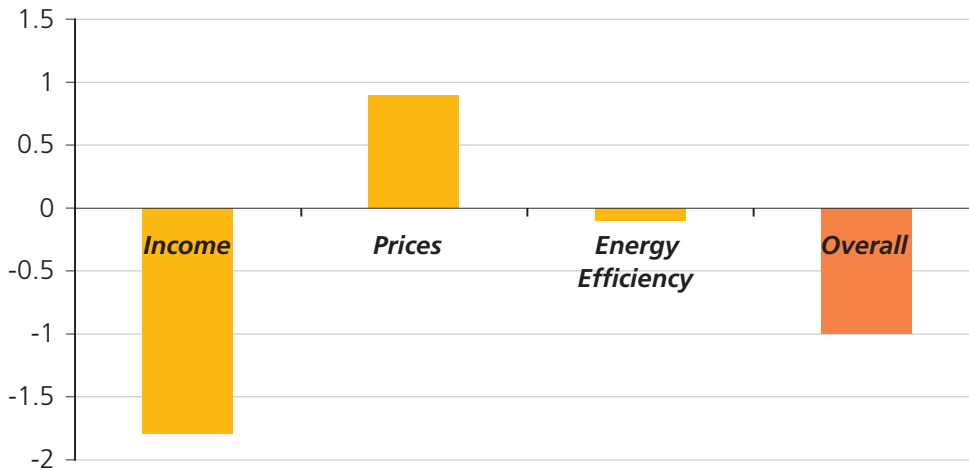
- Income rose (see section 3.2), affecting the percentage in fuel poverty by a factor of **-1.79**
- Fuel prices rose (see section 3.3), affecting the percentage of households in fuel poverty by a factor of **+0.89**
- Energy consumption, reflecting aggregate improvements in energy efficiency, fell by around 2.5% affecting the percentage of households in fuel poverty by a factor of **-0.10**
- Overall these changes total -1. This represents a drop of 2.68 million households in fuel poverty or a reduction of 14.5 percentage points (ppts) over the period.

By combining these factors with the fall in percentage of households in fuel poverty (of 14.5 percentage points), the effects can be expressed in a more meaningful way and their individual impact examined in succession on the proportion in FP:

- If only income changes had taken place between 1996 and 2006 (ie. Energy efficiency and fuel prices remained constant), the change in the fuel poverty percentage would have been nearly 26 percentage points, leaving the percentage of all households in fuel poverty close to zero (note that due to some extreme cases, it is likely that some households would remain fuel poor);
- If energy efficiency improvements were then added to this, this would reduce the percentage of households that are fuel poor by a further 1.4 percentage points;

- Finally, adding in the effect of price changes increases the percentage of households that are fuel poor by 12.9 percentage points, leaving us with the actual value for 2006 of 11.5%.

Chart 5 – relative effects on change in fuel poverty 1996-2006, by each component



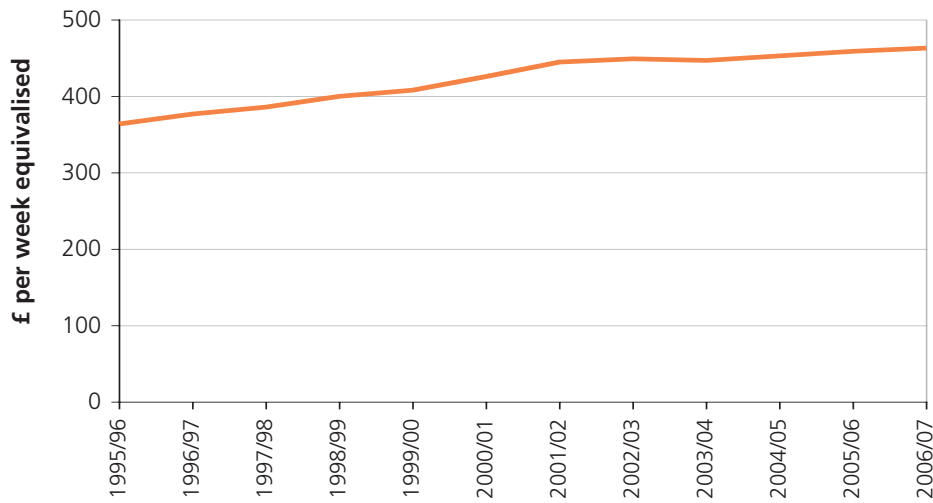
The impact of energy efficiency in this analysis is probably underestimated – this is due to methodological improvements (considered and approved by a peer review of methodology) that have been made to the estimation of heating costs, in particular that for the thermal bridging algorithm² in 2005, which led to an increase in estimated fuel costs. It has not been possible to recalculate the effects without the change. Section 3.4 considers energy efficiency further.

3.2 Income

If incomes are rising faster than fuel prices, this helps to reduce fuel poverty. Chart 6, below, shows the change in average household income (equivalised) over the last 12 years. This shows that average household income was around £360 per week in 1995/6 (£19,000 per year) and had risen by just over £100, to £460 per week in 2006/7 (£24,000 per year), a rise of over 25%. Increases in incomes have become more gradual in recent years after larger rises in the late 1990s.

² <http://www.berr.gov.uk/files/file42706.pdf>

Chart 6 – average household income, per week, equivalised 1995/6-2006/7³

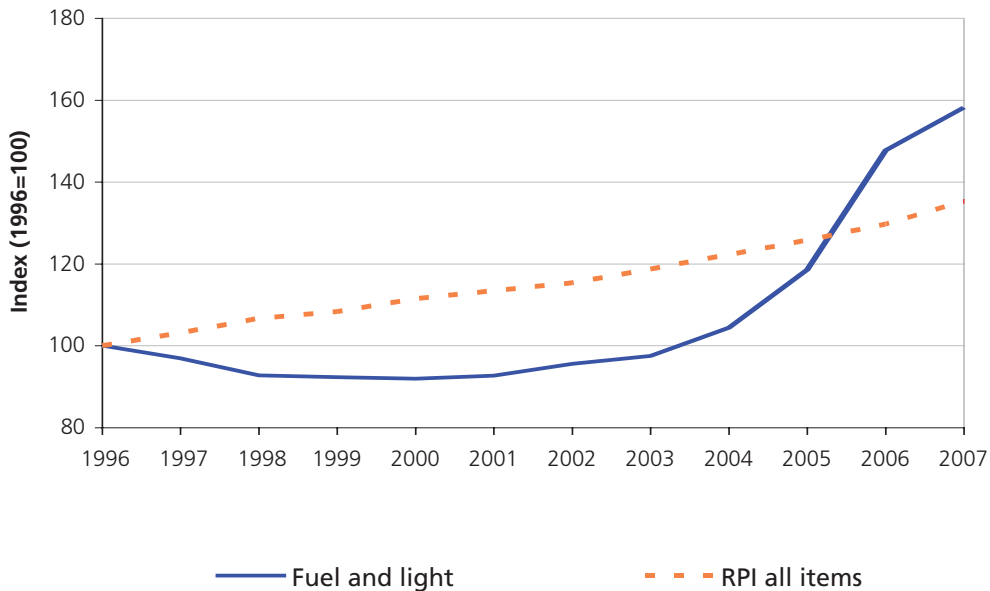


3.3 Prices

Prices have been the most influential factor behind movements in fuel poverty statistics since 2004. When prices are rising faster than incomes, this places upward pressures on fuel poverty.

Chart 7, below shows retail prices of domestic energy since 1996.

Chart 7 – Retail price indices for fuel and light⁴, all items (RPI)⁵ 1996-2007



³ Family Resources Survey, DWP

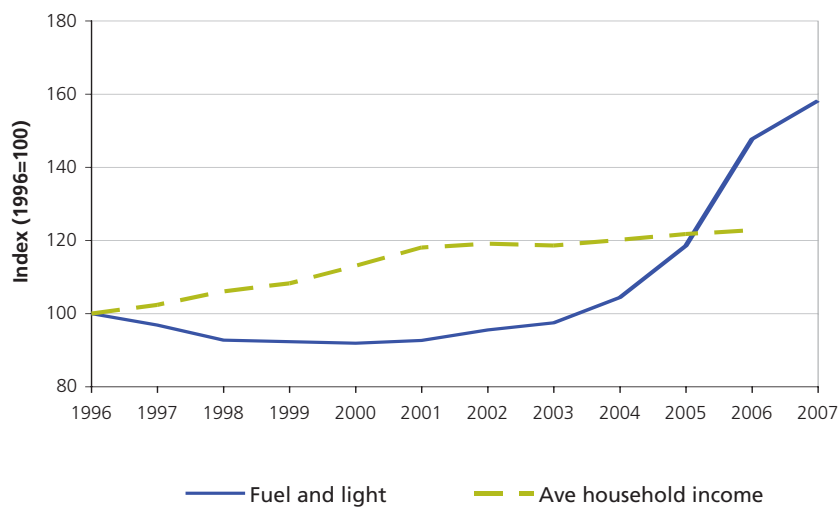
⁴ Fuel and light includes coal and solid fuels, electricity, gas and oil and other fuels. Prices are weighted together in the construction of the index, to represent their relative levels of consumption expenditure

⁵ Retail Prices Index, ONS

The chart shows that since 1996, actual energy prices (as measured by the fuel and light component of the Retail Prices Index) fell until 2000, after which there were small rises for a few years. In 2004, prices started to rise more sharply and in 2006, they were over 60% higher than their low point of 2000, and over 50% higher than in 2003. Although there were some price falls in 2007, prices were still up on the previous year and there were further rises in 2008.

Plotting income, from chart 6, and prices, from chart 7, on the same chart, gives an illustration of the impact of each component on fuel poverty.

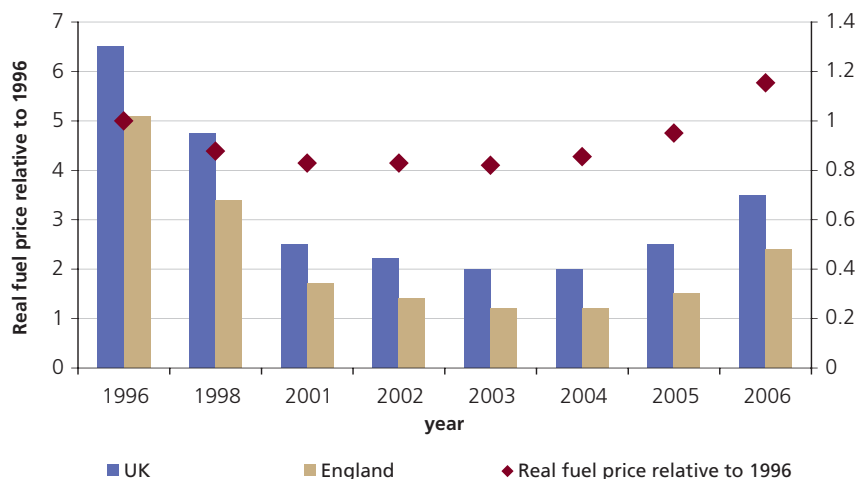
Chart 8 – Prices (RPI) against income (FRS), 1996-2006



During the early part of the period, incomes and fuel prices diverged. However, 2005 is the final year of the period for which incomes (relative to their 1996 level) were above fuel prices.

The position is best illustrated with a combination chart of fuel poverty and real (deflated by GDP) prices, as illustrated below:

Chart 9 – Fuel poverty in the UK & England 1996-2006; real fuel price level⁶, relative to 1996



⁶ Quarterly Energy Prices, Table 2.1.2, BERR

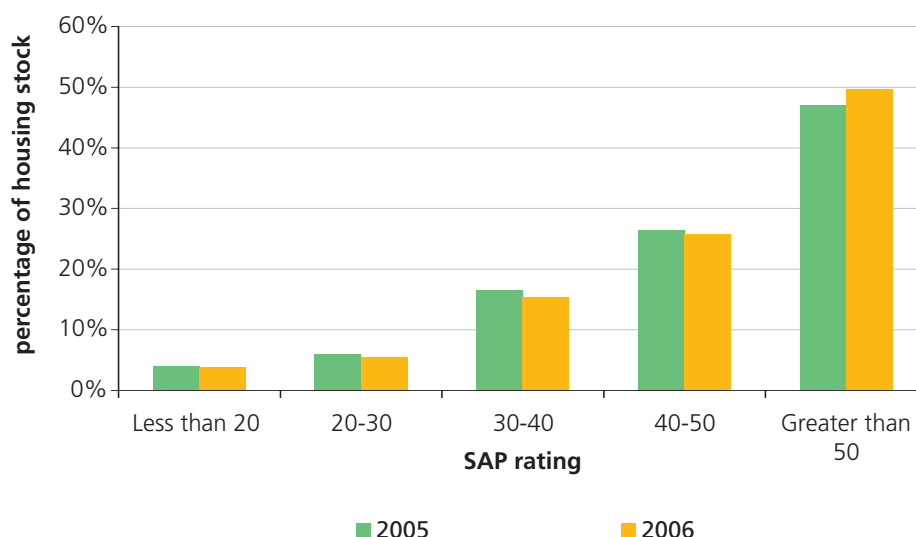
Rising prices present significant challenges for fuel poverty. Consider the example of a household which spends £800 per year on its energy bill and has an income of £16,000. Its fuel poverty ratio is 5%. Ignoring any improvements in energy efficiency, an increase of 10% on its fuel bills (to £880) would require an increase of 10%, or £1,600 in income (to £17,600) to maintain the same fuel to income ratio.

Social tariffs represent one way of helping poorer customers with increasing energy costs. More details are given in section 7 of this annex.

3.4 Energy efficiency

The average energy efficiency of dwellings, as measured by SAP05⁷ ratings and calculated from information recorded in the EHCS rose in 2006 from 48.1 to 49. The proportion of dwellings with a SAP rating above 50 has also increased from 47% in 2005 to nearly 50% in 2006, as shown in chart 10, below.

Chart 10 – percentage SAP ratings of housing stock, 2005 and 2006



It is important to view the chart above as aggregate efficiency improvements across all dwellings. Whereas changes to prices and incomes will affect all households, changes in energy efficiency will only affect those households that benefit from them. Therefore, average measures across the housing stock will also reflect that many dwellings will not incur any change to efficiency measures.

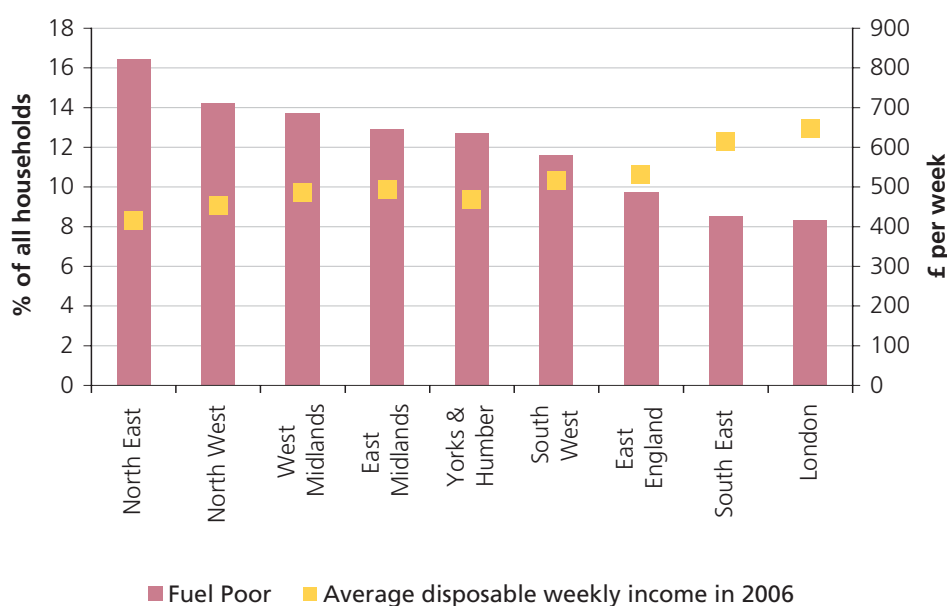
⁷ For more information on SAP ratings, see <http://www.sapratings.com/sapratings.html>

4. Who are the fuel poor?

The “Detailed Tables” appendix that accompanies the Fuel Poverty progress report gives a range of splits of the headline fuel poverty data for England. Some of the breakdowns are graphically represented in this section.

The bars in chart 11 show the proportion of households in each region of England that are defined as fuel poor – these correspond to the vertical axis on the left. The axis on the right corresponds to the dots, which show the average disposable weekly income in 2006, by region.

Chart 11 – Fuel poverty as a % of all households; average weekly disposable income⁸, by region, 2006

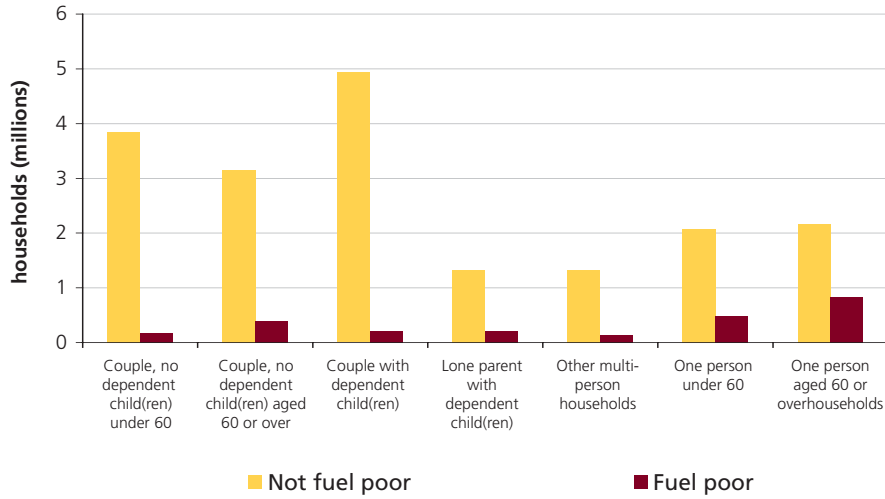


The chart shows a negative correlation across regions between the proportion of households that are fuel poor and the average disposable income. This is unsurprising given the important role of income, as one of the three main variables of fuel poverty, as described in section 3.

Chart 12, below shows numbers of households that are fuel poor (and not fuel poor) by type of household. The chart shows that the lowest incidence of fuel poverty occurs in couples below 60 with no dependent children and couples with dependent children. Conversely, the highest incidence of fuel poverty occurs in single person households where the householder is 60 or over.

⁸ Family Spending 2007, ONS

Chart 12 – Fuel poverty by makeup of household, 2006



The chart below shows fuel poverty by size of household. This illustrates that a higher proportion of single person households are fuel poor than multi-person households. This is as expected – the EHCS shows that one person households will tend to have a smaller income and are more likely to be under-occupying their dwelling than larger size households in general.

Chart 13 – Fuel poverty by size of household, 2006

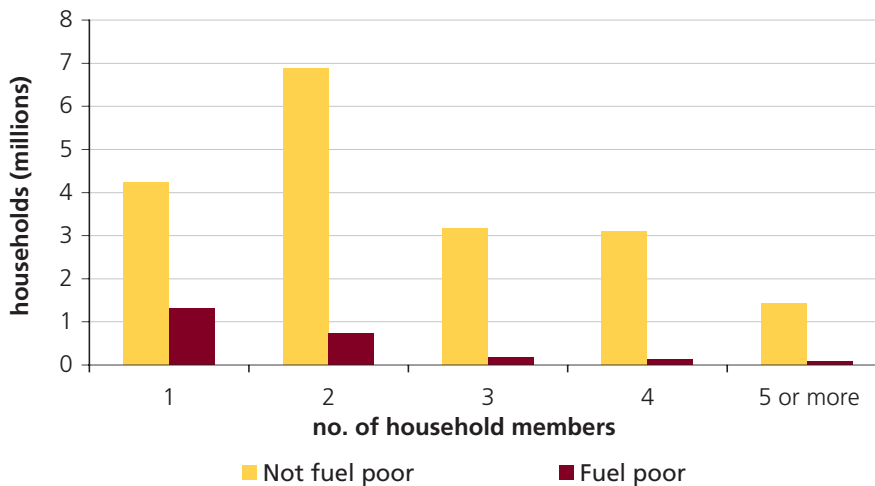
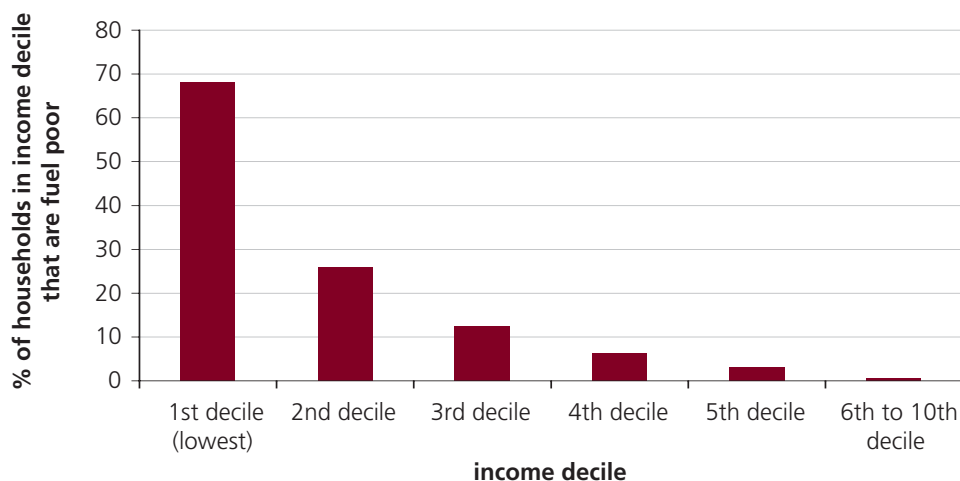


Chart 14, below, emphasises the importance of income in determining whether a household is fuel poor or not. In 2006, almost 70% of households in the lowest income decile (income up to around £8,900) were fuel poor. This group makes up over half of all fuel poor households in total with over 1.3m fuel poor households in the lowest income decile group in England. By contrast, very few households in the highest five income deciles are in fuel poverty, only around 60,000 in total (2% of all fuel poor households). Taken together, the lowest three income deciles account for nearly 90% of all fuel poor households in England in 2006.

Chart 14 – percentage of households in fuel poverty by income decile, 2006



Charts 15 and 16 can be considered together. They show fuel poverty broken down by method of payment for gas (note that charts could be plotted for method of payment for electricity and these show very similar patterns with the obvious exclusion of the “no connection” bars as these are only applicable for gas). While pre-payment meters are often associated with the fuel poor, chart 15 shows the proportion of gas pre-payment (13%) meter customers who are fuel poor is actually slightly lower than that for the standard credit (15%) method. Around 21% of households with no gas are fuel poor.

Chart 15 – percentage of households that are fuel poor by payment type (gas), 2006

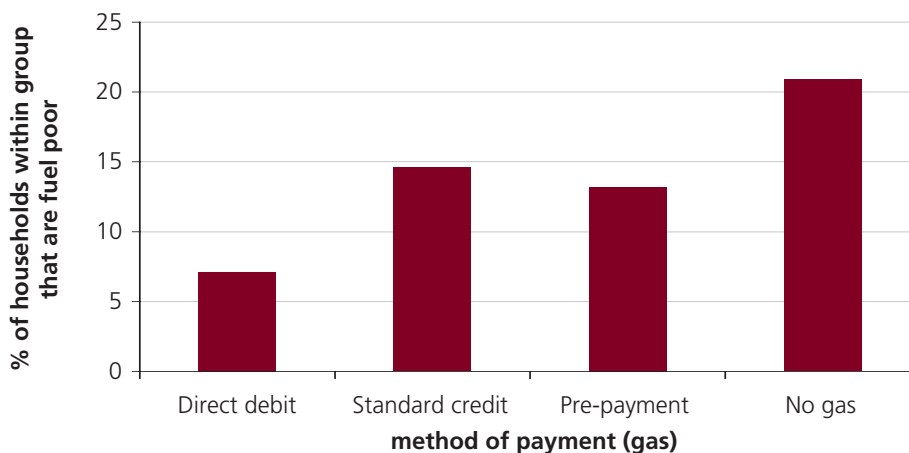
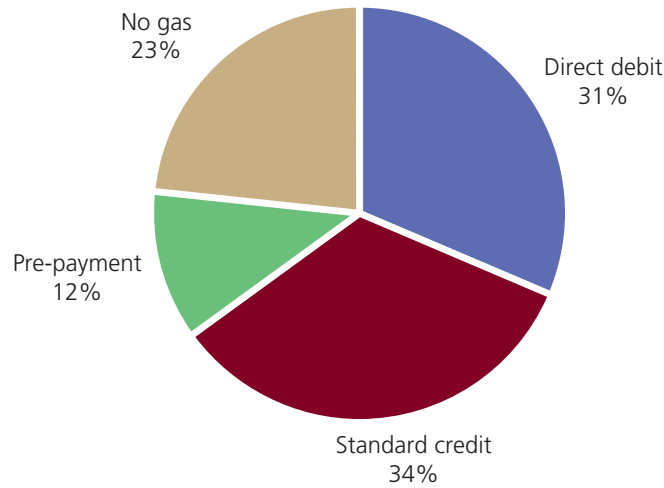


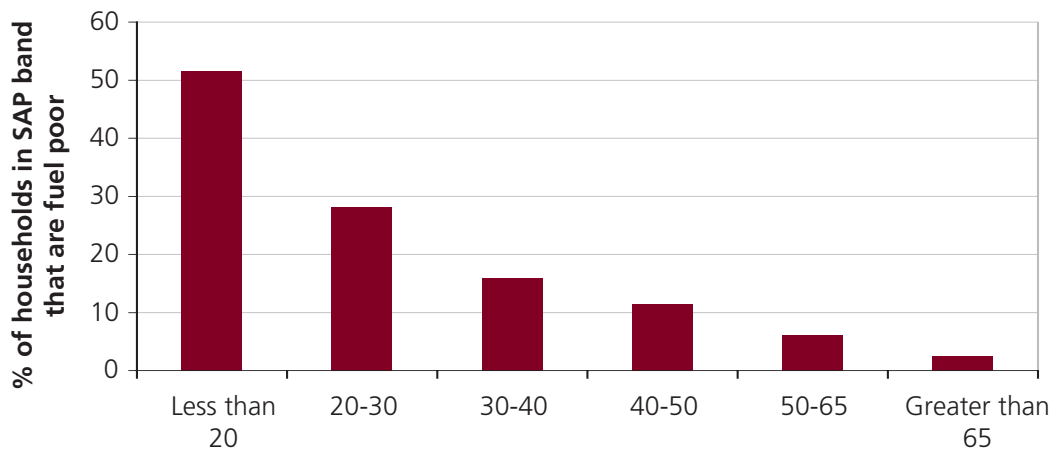
Chart 16 shows the proportion of the total fuel poor accounted for by customers on each type of payment. Again, this is for gas, but similar ratios would apply to electricity after excluding the portion that accounts for no connection. The majority of the fuel poor are made up of customers on either direct debit or standard credit. Together, these groups make up nearly two thirds of the fuel poor. Customers on pre-payment account for only 12% of the total fuel poor in England in 2006.

Chart 16 – percentage of the fuel poor that use each payment method (gas), 2006



The final chart in this section, shows a breakdown of fuel poverty by SAP rating. For more information about SAP ratings, see section 3.4 of this annex. The chart shows a trend that might be expected – as SAP (and so energy efficiency) increases, fuel requirement reduces, and therefore a smaller proportion of households are fuel poor.

Chart 17 – percentage of households that are fuel poor by SAP bands, 2006



Around half of all households with a SAP less than 20 are fuel poor. These homes will have the highest space heating costs, which make up the majority of a household’s energy spend. The proportion in fuel poverty roughly halves when looking at households between 20 and 30 SAP and then halves again when moving to 30-40. Only around 2.5% of households with a SAP of greater than 65 are fuel poor. A SAP 65 house will typically have loft insulation of 100mm or more, the majority of those with cavity walls will be filled and most will have double glazing in at least some rooms of the house. Very few households where the dwelling has a SAP rating greater than 65 are fuel poor (2%); those that are tend to be single person households, often with the householder under 60 and with low income.

5. Projections

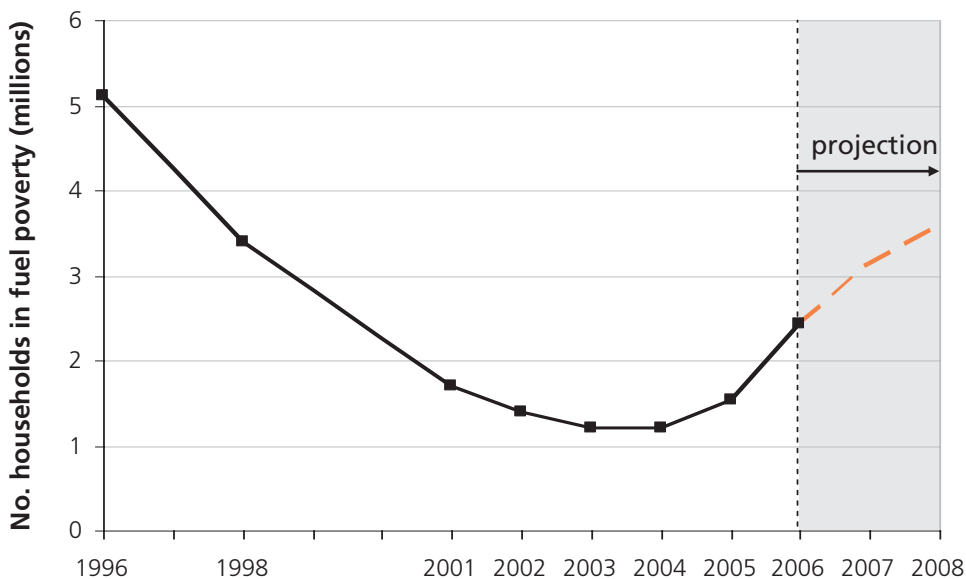
Using a base position of 2006, incomes and energy prices have been projected to provide estimates of the level of fuel poverty in England in 2007 and 2008. Estimates include a fixed reduction due to the likely impact of energy efficiency improvements that will be carried out over the period. Modelling changes in energy efficiency is difficult and erratic in accuracy, so the fixed reduction is based on estimates of the historic improvement in the housing stock.

The methodology for calculating official fuel poverty statistics merges two consecutive years of EHCS data together. The approach taken in constructing these projections is in line with this, in this case, merging two years of projected data together to form an estimate for the year. Combining years in this way leads to a more robust sample size, from which low level splits of fuel poverty (such as those included within the detailed tables) can be made. It does have the consequence of staggering the impact of price rises.

Projections for 2007 are based on known price changes, however the position as of 2008 is less certain as the period that applies to the combined year fuel poverty calculation for 2008 runs from April 2007-March 2009. Known price changes up to and including September 2008 are incorporated in the projections, but prices affecting the latter part of that period are not known yet. In the modelling shown here, prices were assumed to remain unchanged for the remainder of the period. Since the period of unknown prices (October 2008-March 2009) is less than a quarter of the overall two year period determining the 2008 projection, any price changes which are implemented in that period will have a relatively small impact on fuel poverty for 2008, as they will affect such a small part of the 2008 dataset.

The chart below shows projections for fuel poverty in 2007 and 2008.

Chart 18 – projections of fuel poverty for England for 2007 and 2008



Fuel poverty for 2007 is influenced by the domestic price rises during Spring and Autumn 2006, and subsequent price falls during 2007. Fuel poverty in 2008 is influenced by these same price falls during 2007, and also the increases seen in 2008.

The chart shows that projections suggest a rise of around 700,000 households in fuel poverty in England in 2007, a projection of around 3.1 million fuel poor households. Further price rises in 2008 are likely to push around an additional half million households into fuel poverty, taking the estimated level to beyond 3.5 million households in England for the 2008 figures.

Note that the figures do not currently take into account the effect of social tariffs and the benefits that may be felt from increased supplier efforts to aid their poor customers. Early indications suggest this might remove up to 0.1m households from fuel poverty in 2008.

Official figures detailing the position in 2007 will be available in 2009, and those for 2008 the following year.

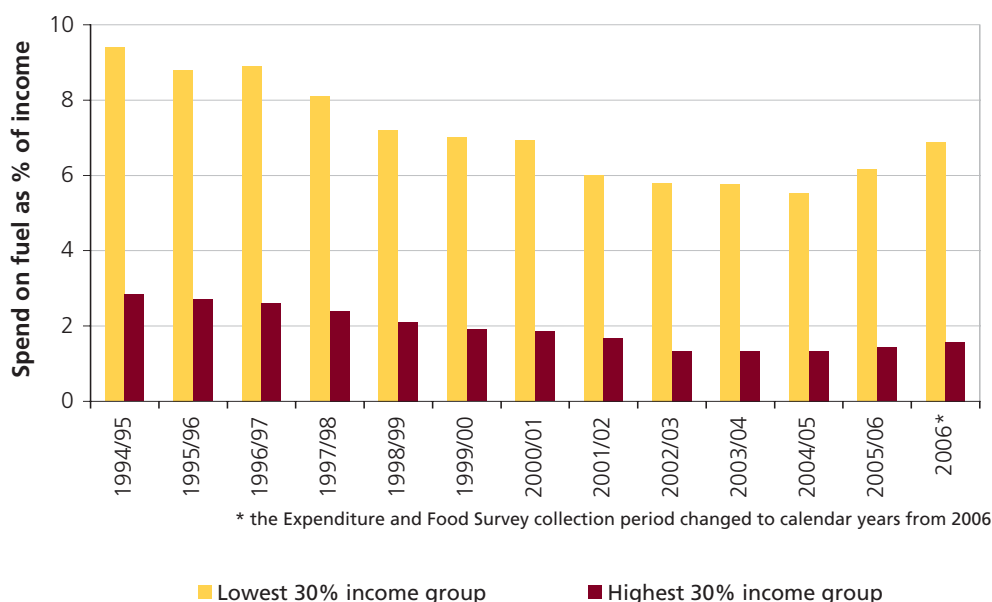
6. Self reported fuel poverty and actual expenditure

This section sets aside the adequate standard of warmth notion of fuel poverty modelling and considers actual spending and self reported ability to keep warm as recorded in the EHCS.

6.1 Actual expenditure

The definition of fuel poverty has its roots based in spending on energy for the home by the lowest three income deciles. The chart below shows the proportion of income spent on fuel for the lowest 30% and highest 30% income groups – that is the lowest three income deciles and the highest three income deciles.

Chart 19 – Spend⁹ on fuel¹⁰ as a proportion of income for the lowest and highest 30% income bands, 1994/5-2006



In the mid 1990s, the lowest 30% of income groups spent just over 9% of their income on energy but this decreased steadily and stood between 5% and 6% in the first part of this decade. The most recent two years have seen fairly large increases in this proportion, and in 2006, energy spend accounted for around 7% of their income on average. Looking at the highest 30% of income groups, a similar pattern can be seen, although the changes from one year to the next are more subtle, particularly in recent years. This is because the increase in bills tends to affect the higher income households to a lesser extent, as energy forms a smaller proportion of their overall income.

⁹ Source: Expenditure and Food Survey (ONS)

¹⁰ Defined in the Expenditure and Food Survey as electricity, gas, coal and oil and other fuels

6.2 Self reported fuel poverty from EHCS

The EHCS comprises four separate sections as outlined in section 1. As part of the household interview survey section, there is a question that can provide an insight into the occupant's subjective thermal comfort in their home during winter. The question asks:

"During the cold winter weather, can you normally keep comfortably warm in your living room?"

If the answer is no, a second question seeking an explanation is asked with the following possible answers:

- *it costs too much to keep your heating on;*
- *because it is not possible to heat the room to a comfortable standard;*
- *both of the above; and*
- *neither*

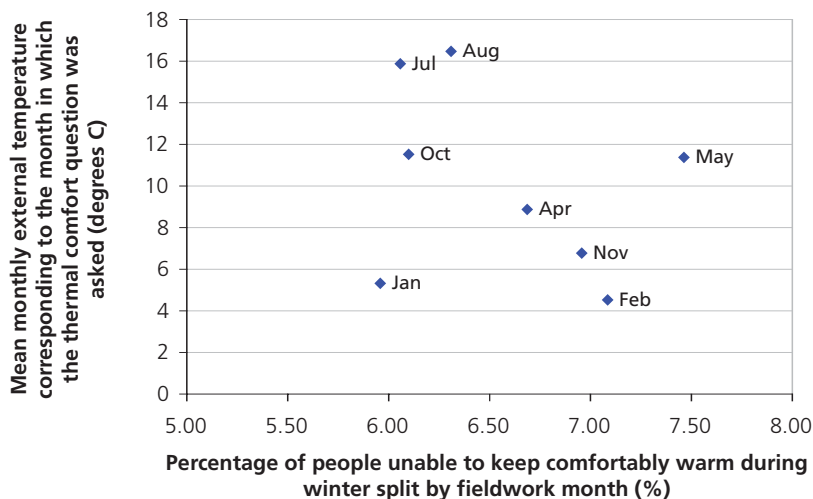
Analysis has been carried out for responses to this question in the 2003, 2004 and 2005 surveys. The table below shows the percentage of households responding "No" in each of the years and the corresponding figures for fuel poverty. There is little variation between years and little evidence to suggest that rising prices in 2005 left people feeling less able to heat their main living room in winter. However, it should be recognised that an ability to heat a main living room does not mean the rest of the house is adequately warm. It is also important to note that this subjective notion of "comfortably warm" may not align well with adequate standard of warmth (21 degrees Celsius in main living area) used in fuel poverty calculations.

Table 2 – subjective thermal comfort and fuel poverty by year, 2003-2005

Year	% of households that could not keep comfortably warm	% of households fuel poor (England)
2003	6.8	5.9
2004	6.4	5.9
2005	6.6	7.2

With such a method of subjective thermal comfort, it may be assumed that occupiers' views were influenced by the time of the year in which the question was asked. Since the EHCS is a continuous survey, it is possible to split responses to investigate whether the colder months brought a more negative perception. The results of this are displayed in the scatter plot below (note that EHCS interviews take place during the first two months of every quarter, hence the chart shows only eight points).

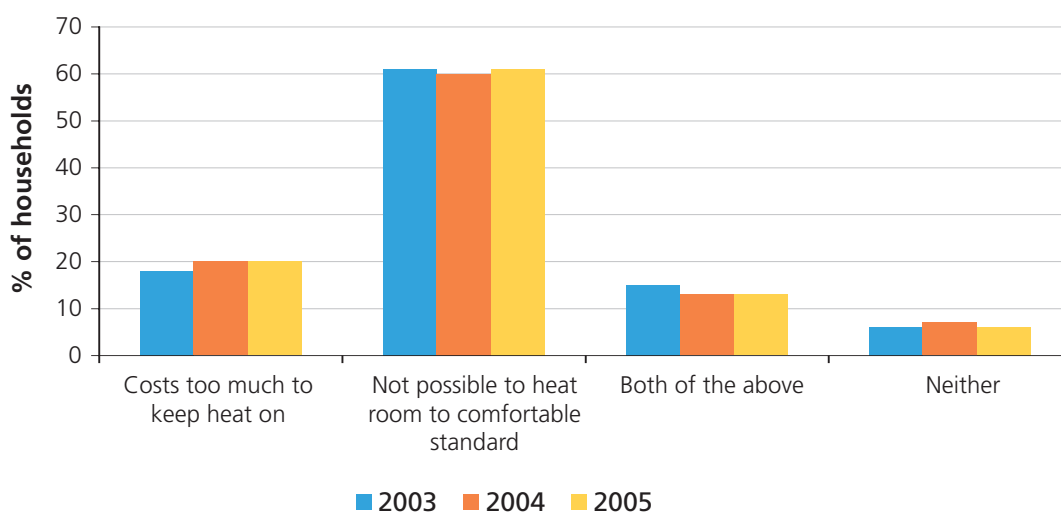
Chart 20 – scatter plot of % of households unable to keep warm during winter months against mean monthly temperature, average 2003-2005



Given colder temperatures in the winter months, it might be expected that these months would be grouped towards the right of the chart and the summer months grouped towards the left. However, there is little evidence to suggest this from the chart above, so we can conclude that perception of ability to keep warm is not influenced by the temperature when respondents are surveyed.

In drawing parallels with the general concept of fuel poverty, it is interesting to analyse the reasons that occupiers were unable to keep warm. The chart below shows the percentage of each response to this question for each year.

Chart 21 – reasons for households not being able to keep warm in winter, by year



When asked why they were unable to keep their main living room warm enough, around one third of occupiers said that cost was a reason. This compares with about three quarters who said it was not possible to heat the room to a comfortable standard and shows the importance of efficient heating systems to promote warmth.

The subset of occupants who answered that they could not keep warm in their main living room and gave the reason that it cost too much to keep the heat on could be classified as being "self reported fuel poor". Analysis has been carried out to cross reference the "self reported" fuel poor with the fuel poor as defined by the official government measure for 2005.

7.2% of all households were officially classified as fuel poor in 2005. This compares with 6.6% of households that reported themselves as being unable to keep comfortably warm in their living room. While these proportions are fairly close, there is little correlation between the two datasets and further investigation shows that individual cases do not correspond as closely as may be imagined. For example, of this 6.6%, only one in eight were actually fuel poor by the agreed definition described in section 1 of this annex.

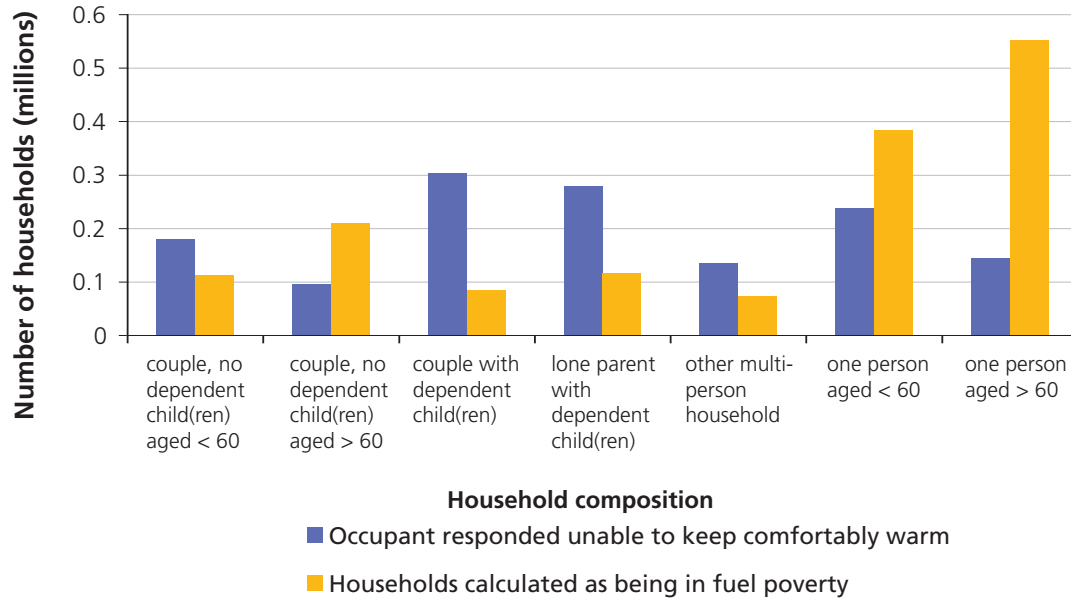
Similarly, only one in nine occupiers who were actually fuel poor responded that they could not keep comfortably warm in winter. Therefore, only 0.8% of all households in 2005 were both fuel poor according to the official definition and the view of the occupier.

Table 3 – subjective thermal comfort cross referenced by fuel poverty, 2005

Able to keep comfortably warm in living room in winter (2005)	Not in Fuel Poverty (%)	In Fuel Poverty (%)	Total (%)
Yes (%)	87.0	6.4	93.4
No (%)	5.8	0.8	6.6
Total	92.8	7.2	100.0

Further analysis has been carried out on the individual cases to consider whether there are particular household types that feel unable to keep warm but are not fuel poor, or vice versa. The chart below shows that occupants calculated as being in fuel poverty are not closely correlated with those households who responded that they were unable to keep their living room comfortably warm during winter, when split by the household composition. Households with dependent child/children are most likely to state that they are unable to keep comfortably warm, whereas single person households are the most likely group to be calculated as fuel poor.

Chart 22 – comparison of subjective thermal comfort against fuel poverty by household type



7. Social assistance from energy companies

In the 2007 Energy White Paper, Government set out its aims for each energy company to establish a proportional level of assistance for their vulnerable customers.

A supplier can be considered to be offering a proportional programme of assistance if it is offering a level of assistance under a range of measures around or above the industry average. Measures considered included:

- The level of assistance relative to the size of the supplier (both in terms of number of accounts benefited and savings offered);
- The overall price level offered (relative to other suppliers)

Analysis was jointly conducted for 2006 by BERR and OFGEM, using the results obtained from a survey sent to energy suppliers. An initial report was published by OFGEM in August 2007¹¹, and was later updated in an open letter in October 2007¹². Following this, energy companies were consulted about any future plans to increase their offerings and BERR considered whether the six major companies were providing a proportional level of assistance under at least one of the measures.

On a spend per customer account basis, the six suppliers ranged between £2 and £10 in 2006, with three companies above average. Incorporating future plans for spending in 2008 updated the range of spend to between £5 and £11 per customer account. This left two companies above average and a further three very close to the average spend per customer account.

The second measure that was considered was the average percentage reduction from bills due to the social tariff for each company. This ranged from 0.3% to 1.1% for the six companies in 2006. With future measures incorporated, the range became 0.5% to 1.2%, with three companies exceeding the average and a further two companies very close to average.

The final method considered whether a company offered low prices to all their customers or had a payment type regime that enabled low income customers to receive a good deal. This measure is based on proxying the average bill of a fuel poor household with each company and then reducing this to reflect the average saving an eligible fuel poor customer could expect with a social tariff. If a company's bills to their fuel poor customers are already below this level, then their fuel poor customers already receive benefits equivalent to or better than the social tariff.

This showed that one company already offered prices below the average bill of a fuel poor household, reduced by the average saving appropriate for a social tariff.

Through these tests, each of the six suppliers had been shown to offer a proportional level of assistance under at least one of the measures and some against more than one.

¹¹ <http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Review%20of%20suppliers%20voluntary%20initiatives.pdf>

¹² <http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/CSR%20update%20open%20letter%2023507.pdf>

In April 2008, the Secretary of State for BERR, John Hutton, secured the individual agreement of the six major energy suppliers to increase their collective spend on social offerings over a period of three years from 2009-11 to £150m a year. This means that over the current spending period, suppliers have pledged a further £225m in total to help their most vulnerable customers. BERR and Ofgem will continue to monitor social spend of each company.

Ofgem conducted a consultation to consider what areas of spending by the supplier could be counted as social spending. The results of the consultation are available here:
<http://www.ofgem.gov.uk/Media/PressRel/Documents1/Social%20Spend%20release%20final.pdf>

8. After Housing Costs

8.1 Introduction – what is AHC?

The 2004 Peer Review¹³ of the Government's fuel poverty methodology recommended consideration of a fuel poverty model that uses an after housing costs (AHC) measure of income and approximates as closely as possible the definition used in the official Households Below Average Income (HBAI)¹⁴ statistics, produced by the Department for Work and Pensions (DWP). An AHC model assumes spending on housing is essential, or non-discretionary, and therefore that portion of income is not "disposable" – it has to be spent on housing. It reduces the household income by the total amount each household spends on essential housing costs.

The HBAI uses Before Housing Costs (BHC) and AHC to analyse and report on poverty in the UK. Fuel poverty uses something closely approximated to the BHC measure (as far as possible given the information collected) in its 'full' income measure. Fuel poverty is also reported on using a 'basic' income definition (see section 1 of this annex) which is similar to full income but excludes income related to housing (housing benefit, net council tax liability, income support for mortgage interest and income from mortgage payment protection insurance).

This section includes an explanation of what the collected EHCS dataset will allow to be modelled in order to estimate an AHC version of fuel poverty and what its limitations are. It also draws comparisons with fuel poverty figures calculated on a before and after housing costs basis. The analysis is based on the 2004 published EHCS dataset.

This analysis is presented to address the Peer Review recommendation and to consider how sensitive the profile of the fuel poor is to the exact income definition used. It is not designed to compare fuel poverty levels under the different measures as doing so would require a change to the 10% threshold currently used for the BHC measure (see section 8.3). There is no intention to change the fuel poverty definition to an After Housing Costs basis.

8.2 Method of calculation

- The method used combines information collected in the EHCS to estimate a BHC income variable, and then strips out those components that are excluded to derive the AHC variable. An approximation was made to a BHC income variable to be used in fuel poverty modelling.

Taking the BHC income, a number of deductions are made to form an AHC income variable:

- Rent;
- Mortgage interest payments;
- Water rates, community or council water charge;
- Structural insurance premiums; and
- Ground rent and service charges

¹³ <http://www.berr.gov.uk/energy/fuel-poverty/methodology-review/index.html>

¹⁴ <http://www.dwp.gov.uk/asd/hbai.asp>

Of these, only rent is collected in the required format in the EHCS. The AHC income, by definition, removes only the interest portion of mortgage payments (the interest component can be thought of as servicing the mortgage debt. However, the EHCS records only the full mortgage payment (capital repayment and interest), so this has been used instead as it is not possible to derive the interest only portion. This will tend to reduce a household's income more so than in the HBAI AHC variable, although the approximation is acceptable as, for most households, especially in the early years of a mortgage, the majority of the repayment is interest. No attempt has been made to model the other components, which to an extent are approximated by the capital costs which are excluded.

Put simply, the AHC calculation of the fuel poverty ratio is:

$$\text{fuel poverty ratio} = \frac{\text{fuel costs (usage x price)}}{\text{income - housing costs}}$$

8.3 Results

The effect of deducting rent and mortgage payments from income for households that have those outgoings can be seen in the table below. The actual medians for after housing cost full incomes would be slightly higher than shown in Table 4 as the full mortgage payment is deducted rather than just the interest payment (therefore overstating the deduction). The reason the median income falls by less proportionally for owner occupiers is because around half of these households will have paid off their mortgage, and so their AHC variable will be similar to that under the full income model.

Table 4 – Median annual income (£) before and after housing costs, 2004

Tenure	Full Income	Full income AHC
owner occupied	22,367	19,609
private rented	17,484	12,151
local authority	11,430	8,549
RSL	12,036	8,529
Total	19,140	16,300

The number of households, net of AHC income components beyond a 10% threshold can be seen in the table below. As expected, removing those significant costs associated with housing from income results in a larger number of households required to spend more than 10% of their AHC income on energy to obtain the adequate standard of warmth.

Table 5 – fuel poverty levels – full income, AHC and basic income, 2004

	Households needing to spend more than 10% of income on energy	Percentage of all households
In FP – full income definition	1.2m	5.9
In FP – full income AHC	2.5m	12.0
In FP – basic income definition	1.4m	6.9

The table below shows a breakdown of tenure under the full income (official fuel poverty methodology), the basic income measure and the AHC approximation.

Table 6 – fuel poverty by tenure, under full income, AHC and basic income, 2004

Tenure	Proportion spending more than 10% of income on energy		
	Full Income	Full income AHC	Basic Income
owner occupied – no mortgage	48	23	29
owner occupied – with mortgage	20	22	14
private rented	15	21	19
local authority	12	21	25
RSL	5	13	13
Total	100	100	100

It can be seen that the impact on the rented sector is much greater than on the owner occupied sector with over half of the households beyond the 10% threshold coming from these sectors on an after housing costs basis, but only around a third coming from these sectors on a before housing costs (full income) basis. The increase in the contribution of the rented sector is matched by a drop in the owner occupied sector, as a result of households with no mortgage. The change is likely to be for two main reasons: the EHCS shows that those renting are likely to have lower average incomes (meaning that they are closer to the 10% threshold) and the incomes of owner occupiers are likely to be reduced by less than renters, as 43% of owner occupiers do not have a mortgage (whereas the vast majority of renters must pay rent).

While it is interesting to note the changes to the fuel poverty distribution under an AHC measure, the adjustments made to income under a switch to an AHC measure would undoubtedly require a change to the definition of fuel poverty that was used when the methodology was originally devised. Put another way, reducing a household's income by the amount they spend on housing will increase the relative amount any household (with positive housing costs) needs to spend on energy to obtain an adequate standard of warmth. Given this it would seem sensible to adjust the threshold of fuel poverty to achieve a similar number of fuel poor households under this new AHC measure as under the full income definition. If rent and mortgage payments are deducted from income, the threshold for fuel poverty should be about 14% spend of a household's income on energy use.

When the 14% threshold is used, the figures in Table 6 and Table 7 can be recalculated. Table 7 shows an even greater contribution from the rented sectors (on an AHC basis) when the threshold is shifted to 14%.

Table 7 – Fuel poor by tenure (14% threshold), full income, AHC and basic income, 2004

Tenure	Proportion spending more than 14% of income on energy		
	Full Income	Full income AHC	Basic Income
owner occupied – no mortgage	46	25	13
owner occupied – with mortgage	22	16	20
private rented	17	28	25
local authority	11	20	27
RSL	4	12	14
Total	100	100	100

When the AHC measure is used and the threshold is shifted to leave a similar number of households in fuel poverty, we see that the composition of the fuel poor changes too.

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Department for Environment, Food and Rural Affairs
Nobel House
17 Smith Square
London SW1P 3JR
Telephone: 020 7238 6000
Website: www.defra.gov.uk

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