# Response to the Hills Fuel Poverty Review

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## Energy Action Scotland

Energy Action Scotland (EAS) is the national charity campaigning for an end to fuel poverty in Scotland. EAS has been working with this remit since its inception in 1983. It is a membership organisation and has members in all sectors across the country. EAS sits on the Scottish Government's Fuel Poverty Forum and is a member of the All Party Parliamentary Fuel Poverty and Energy Efficiency Group at Westminster.

## Context

While the review of fuel poverty focuses primarily on England, its conclusions are likely to have an impact on all parts of the United Kingdom given the cross-cutting nature of fuel poverty.

It is widely accepted that fuel poverty is caused by a combination of three factors: the high cost of fuel, low disposable household income and the energy inefficiency of the home. Of these factors, the first two – cost of fuel and energy market regulation and also income including national minimum wage and welfare benefit levels – are matters reserved to the UK Government. The third factor – domestic energy efficiency plus building standards – is devolved to the Scottish Government.

Moreover, current programmes governed by the UK Government such as the Carbon Emissions Reduction Target (CERT) and the Community Energy Savings Programme (CESP), as well as the proposed Green Deal and Energy Company Obligation (ECO), operate across Great Britain and so impact on Scottish consumers and on levels of fuel poverty in Scotland.

Scotland's actions on fuel poverty also form part of the UK Fuel Poverty Strategy and contribute to the UK's targets on climate change.

## Fuel Poverty in Scotland

The Scottish Government has a statutory duty to eradicate fuel poverty in Scotland by November 2016 under the Housing (Scotland) Act 2001.

The level of fuel poverty has swung from a high of over 730,000 households in 1996 to a low of just over 250,000 in 2002 and has now soared to an estimated 800,000 households - or 1 in 3. While rising energy prices can largely be blamed for the recent increase, efforts to improve domestic energy efficiency and maximise household incomes have been crucial in mitigating the effects of fuel poverty. Without them the number of fuel poor households would undoubtedly be much higher.

## Definition of Fuel Poverty

*Origins of Definition*

The original 10% definition, as provided by Dr Brenda Boardman, was produced at a time when household energy costs were on average 5% of disposable income. EAS would suggest that the original definition is still relevant today, with those in fuel poverty continuing to pay 10% or more of their income. They continue to pay proportionately more for fuel than the average household. The Family Spending report produced by the Office for National Statistics in 2010 showed that the weekly disposable income spent on all fuels, with the exclusion of motor fuel, was 3.4%, while figures from 1980 show that this percentage of expenditure was 5.3%. This clearly demonstrates that, while the national average expenditure has dropped by around 2%, those living in fuel poverty continue to pay proportionately more for their fuel.

The Watt Committee on Energy, reporting in 1994, showed that in 1985 the lowest 30% of households with the lowest incomes spent 11% of their disposable income on fuel while the other 70% spent 5%. The authors argued that people on the lowest incomes needed to spend disproportionately more of their income - ie more than double the national average – on fuel and yet were still not able to achieve adequate warmth in the home.

The Watt Committee report also stated that: “The problem has been created by a lack of capital investment in the energy efficiency of the dwelling … rather than just poverty or high fuel prices”.

An important factor of the current definition is the *need* to spend 10% of income to heat and power the home adequately (ie for all fuel use), as opposed to *actual* expenditure, since many people in fuel poverty ration their use of energy or cannot achieve adequate levels of heating in energy inefficient homes.

*Measuring Household Income*

The UK and Scottish Governments have chosen to use a definition of fuel poverty that includes all housing costs (although the Scottish Government, in the Scottish Fuel Poverty Statement 2002, stated that it would also collect data using the definition that excludes housing costs).

EAS believes that housing costs should be excluded and that the definition of income for the purposes of fuel poverty ought to be based on disposable household income.

*Scottish Variations*

There are some variations in the definition of fuel poverty for Scotland. For example, Scottish standards for heating regimes are based on those of the World Health Organisation (WHO) but also have a higher standard for older, disabled and sick people ie. 23$^{o}$C in the living room and 16$^{o}$C elsewhere for 16 hours a day[1].

*Current Definition*

The recent joint inquiry into Social Justice in the Low Carbon Economy by the All Party Parliamentary Fuel Poverty and Energy Efficiency Group and the Associate Parliamentary Renewable and Sustainable Energy Group at Westminster concluded that “the current definition is still fit-for-purpose and that there are considerable risks in moving to a new definition” and that

[1] Scottish House Condition Survey 2006

“there are few compelling reasons why the Hills Review should consider fuel poverty from first principles.”

EAS agrees with this conclusion.

## Measuring Fuel Poverty

Scotland measures fuel poverty using the Scottish House Condition Survey (SHCS). The SHCS, in turn, uses the National Home Energy Rating scheme (NHER), which is similar to the Standard Assessment Procedure (SAP) used in England but has the advantage of taking geographic location, and therefore climatic variations, into account. This is particularly important as some areas of the country are colder on average than others and so tend to have longer heating seasons and therefore higher fuel bills.

The SHCS shows the numbers in fuel poverty and also the characteristics of fuel poor households.

Fuel poverty impacts on many groups such as young adults in poorly paid jobs, single parents, pensioners, those living off the gas grid and those using expensive, unregulated fuels such as heating oil and solid fuel.

Household income is a key contributing factor, with the SHCS showing that almost no-one with an income of over £399.99 per week is living in fuel poverty; at £20,800 per year, this is less than the national average of £23,504.

However, the energy efficiency of the home is the major factor. Those living in homes without central heating or double glazing, with little insulation and built pre-1919 are at particular risk of fuel poverty.

EAS therefore argues that to tackle fuel poverty in a serious and sustainable manner, the fabric of existing housing stock needs to be improved in a systematic manner.

## Fuel Poverty Distinctions

Fuel poverty is distinct from poverty as it has been created largely by insufficient investment in housing.

Fuel poverty is virtually unheard of in countries with more inclement weather such as Norway, Sweden and Denmark, countries which have poverty but more energy efficient housing. These countries are also shown to have similar costs for fuel as the UK.

## Impact on Health

The issue of the impacts of fuel poverty on health have been well documented, dating back to the World Health Organisation (WHO) report ‘Health Impact of Low Indoor Temperatures’ published in 1987 to the report ‘Age and Aging’ by K J Collins for Age Concern in 1996 and the more recent report ‘The Impact of Fuel Poverty on Children’ by Professor Christine Liddell for Save the Children in 2008.

All of these reports and others highlight the impact of fuel poverty on health and show the consequences of living in a poorly heated and uninsulated home. Indeed, Professor Liddell's report estimated that every £1 spent reducing fuel poverty saves the NHS 42 pence.

Poorly heated and damp homes have a detrimental effect on the physical well-being of the occupants, while poor living conditions and stress caused by debt and lack of money can also lead to emotional distress that in turn contributes to poor mental health.

A recent report found that "Cold housing negatively affects children's educational attainment, emotional well-being and resilience." It also states that "Poor families will face the choice to 'heat or eat': either less money can be spent on basics such as a sufficient, healthy diet (with obvious health impacts such as obesity or malnutrition), or less can be spent on heating their homes to a reasonable temperature." [2]

**Need for Domestic Energy Efficiency**

Dr Boardman argues that 80% of the current housing stock will still exist in 2050[3]. It is therefore right to direct resources into making these homes more energy efficient and so to provide affordable warmth for the occupants.

In examining the cost effectiveness of measures to address fuel poverty, it is well documented that basic energy efficiency measures such as cavity wall, loft and hot water tank insulation have very short payback times ranging from a few months to four years. However, despite these measures being the mainstay of programmes such as CERT and its predecessors for many years, many homes still lack these basic measures. Bodies such as the National Insulation Association estimate that half of the heat loss in a home is through walls or loft space and yet around 6 million – or 1 in 4 - UK homes have cavity walls which have not been insulated.

The cost of installing heating systems can take longer to recoup and the initial expenditure usually places this measure beyond the budget of poorer households. However, efficient central heating systems are essential in order to eradicate fuel poverty.

Whether in the form of insulation or heating systems, these necessary interventions are unlikely ever to be affordable to those on a low income and support is therefore required.

Interventions such as tariff advice, benefit entitlement checks and support for claiming such benefits can prove to be very effective and for little cost. A study of the Energy Assistance Package in Scotland has shown that incomes of eligible households can be increased by around £1,200 - £1,500 per year and that, once gained, continues to provide additional financial benefit for a number of years. The cost of providing benefit entitlement checks varies depending on the level of support needed, but recent analysis suggests a visit cost of around £70. With high levels of benefit under-claiming widely recognised across the UK, this level of support seems to be money worth investing, particularly if delivered with energy efficiency advice and as part of a holistic scheme.

[2] 'The Health Impacts of Cold Homes and Fuel Poverty', Marmot Review Team, Department of Epidemiology & Public Health, University College London, May 2011.
[3] '40% House', Brenda Boardman et al, Environmental Change Institute, University of Oxford, 2005

*Building Standards*

Improvements in Building Standards must continue in line with the Government commitments for zero carbon homes by 2016. It must be ensured that both the will and the means are provided to the verifiers of building standards so that there can be confidence that higher standards in buildings to 2016 and beyond are adhered to and maintained. In addition ways must be devised so that warrants for new buildings can assist with complementary improvements in existing buildings.

## Targeting

All government-backed schemes – from the Department of Health and Social Security single payment for energy efficiency works in the early 1980s through to the most recent government-backed programmes - have provided some support to improve the energy efficiency of homes but have lacked a specific focus on those most in need. The worst cases – in terms of both energy efficiency of the dwelling and level of income of the household - need to be tackled first. This must be done in a strategic manner that allows for both reactive approaches by individuals and proactive, area-based approaches by third parties.

The consultation for the Hills Review questions whether or not the current definition of fuel poverty allows Government to focus policies and resources on those who most need support. EAS believes that the use of effective proxies based on the likelihood of exposure to fuel poverty and the associated risk to health and well-being is key to the targeting of assistance and that this does not require a change of definition.

The current UK Government proposals to place further burden on gas and electricity users via blanket charges on bills that does not reflect actual energy usage, ability to pay or eligibility to access the benefits, means the poorer consumer pays disproportionately more in fuel charges in order to fund schemes to tackle energy efficiency and fuel poverty. It is EAS's belief that this is regressive.

Simple rebates such as the Warm Home Discount (WHD) and the Winter Fuel Payment, while popular with the older people who receive them, do not assist all groups who suffer from fuel poverty, which is unhelpful. The proxy for identifying the core WHD recipients, for example, means that this rebate will in fact be paid to a group of people, 47% of whom are not fuel poor. However, because the levies funding the WHD fall on all fuel users, all fuel poor households must pay more but do not benefit from the initiative. Moreover, these measures do not take into account actual expenditure on fuel, the location of the household or the energy efficiency level of the home.

The current make-up of energy bills could be argued to contribute to fuel poverty as the 'levies' on bills are a flat rate and not tied to either the actual fuel used or the ability of the customer to pay. This can result in people already living in or at the margins of fuel poverty spending a higher proportion of their income on trying to heat their home to a healthy standard. For example, the current suggested level of the Warm Home Discount is £120 per home. However, the heating costs for an average house situated in Cardiff or Bristol is £120 less than a similar house in the West of Scotland. This means therefore that there is no real benefit to those living in the West of Scotland of receiving the Warm Home Discount. Those households living even further north are even more disadvantaged by the flat-rate rebate. A rise in fuel prices of 10% or more, as is widely predicted, would also wipe away any such benefit.

EAS believes that the current definition gives plenty of scope for targeting and would argue that it is not the definition but the measurement tools used and the lack of strategic direction that require attention.

## Fuel Poverty Identification and Mapping

*Area-based*

National and local surveys can and have identified areas of poor housing and areas where the economic circumstances of the population show levels of poverty, such as areas of multiple deprivation. Software also exists that can be used to help identify areas of fuel poverty, including down to sub-ward level.

Three programmes currently use area-based or targeted approaches: the Community Energy Saving Programme (CESP), the Universal Home Insulation Scheme (UHIS) in Scotland and Warm Zones in England.

Evidence suggests that these approaches are producing significant returns and increases in home energy efficiency. In some cases, there is also
increased household income due to income maximisation activities such as benefits checks.

CERT and CESP are to be replaced by the Green Deal and Energy Company Obligation (ECO), however. EAS would suggest therefore that research into the effectiveness of existing area-based programmes such as CESP, UHIS and Warm Zones should be undertaken as a priority in order to determine which aspects of these programmes have been effective and ought therefore to be retained or replicated.

*Energy Customers*

Gas and electricity companies already have a lot of information about their customers, including the use of data-sharing and of the Priority Service Register (PSR). EAS believes a national PSR would better enable energy companies to keep track of customers eligible for a standard package of support, even when customers switch supplier or move address.

Customers on or applying for Fuel Direct (Third Party Deductions from benefit) ought also to be flagged up automatically for referral for assistance such as energy efficiency measures and energy advice.

*Individuals*

On the question of identifying the fuel poor, EAS would argue that there needs to be a reactive scheme in addition to area-based schemes in order to provide assistance for those individuals who have been identified (perhaps by support agencies or charities) as being ‘in need’.

There are clear trigger points in people’s lives where they are likely to experience a drop in their household income. All energy efficiency and income maximisation services need to be offered in a holistic manner at that point. For example, new Job Seekers Allowance claimants should be given access to services as a matter of course, and people retiring from the workforce should be given clear information on managing their energy use at home and accessing energy efficiency measures.

*Existing Surveys*

The various national house condition surveys, together with housing stock audits produced by local authorities (often as a result of their duties under the Home Energy Conservation Act – HECA), and Energy Performance Certificates should be used to create a fuel poverty map of the country at sub-ward level. Having created such a map, a plan should then be put in place to tackle each area and bring all homes within the area up to an agreed level of energy efficiency. The plan would require milestones and budgets to be set.

This plan ought, in turn, to fit within the overall UK Fuel Poverty Strategy which aims to meet the statutory duties to end fuel poverty by 2016-2018 across the UK. It could also contribute to reducing energy demand, reducing $CO_2$ emissions and to meeting climate change targets.

## Conclusion

In conclusion, in order to treat fuel poverty, the most sustainable option is to invest in the housing stock by increasing its energy efficiency. Poorer people are more likely to live in poor housing that is energy-inefficient, with inefficient heating and which is generally poorly maintained.

Income levels have to be addressed, particularly for those in the lower income bands. The culture of under-claiming of benefits has to be over-turned.

While domestic fuel prices remain high or fluctuating, support must be provide for those on low incomes who cannot afford adequate power in their homes.

All three of the main causes of fuel poverty must be tackled in order to solve the problem.

The current definition does not prevent the Government from tackling fuel poverty effectively. It must, however, develop a more robust strategic plan using information already available in order to target homes and people in a more effective, consistent and holistic manner. This plan must be directed by Government.

Finally, it must be recognised that living in a warm, dry home at a price that can be afforded is a basic human right.