



National Audit Office

# The Warm Front Scheme

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 126 Session 2008-2009 | 4 February 2009

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National Audit Office

# The Warm Front Scheme

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***Tim Burr***  
**Comptroller and Auditor General**  
**National Audit Office**

**29 January 2009**

The National Audit Office  
study team consisted of:

Ian Hart, Siân Jones and Sarah Sharp,  
under the direction of Phil Gibby

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Office web site at [www.nao.org.uk](http://www.nao.org.uk)

**For further information about the  
National Audit Office please contact:**

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

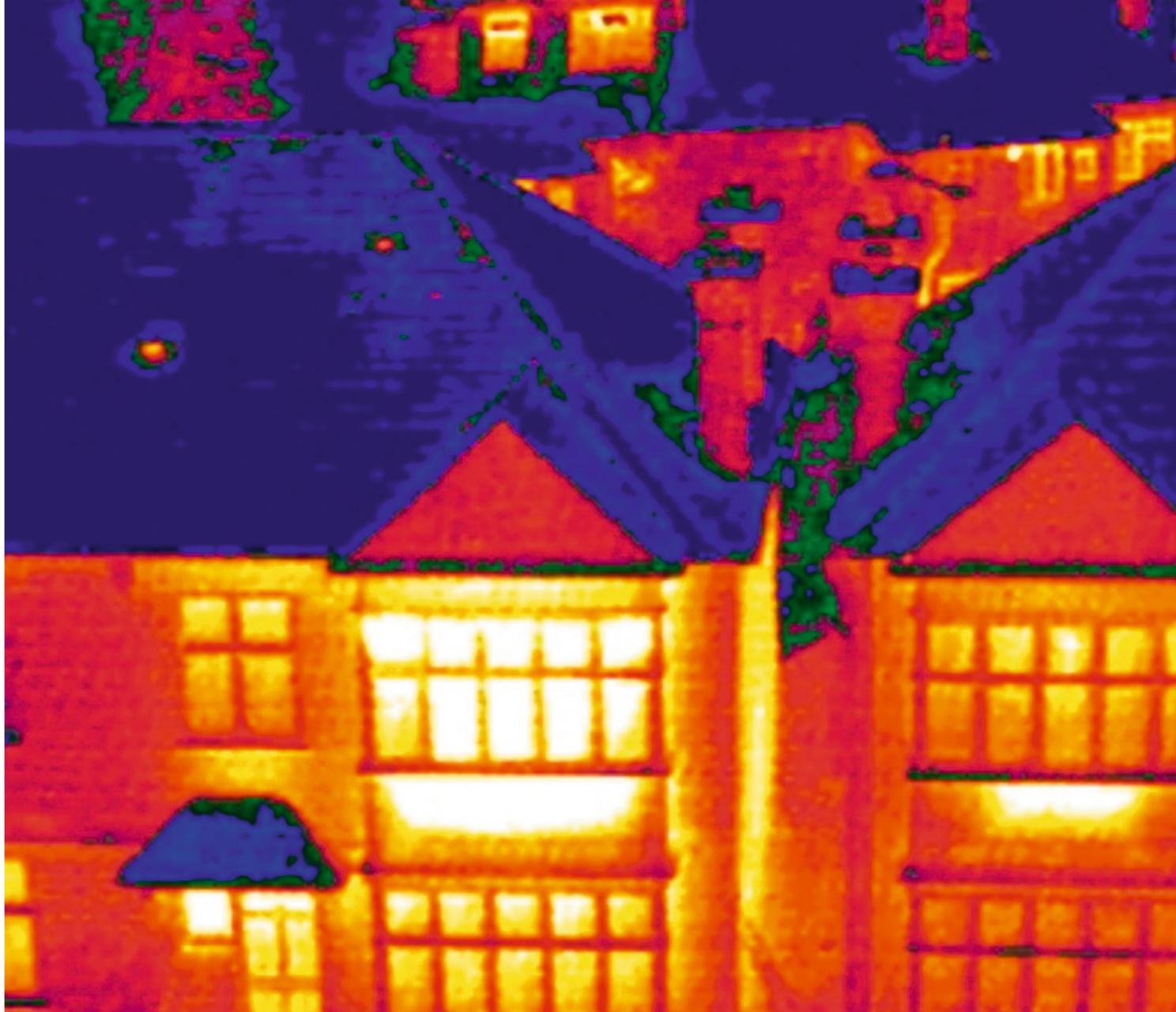
Tel: 020 7798 7400

Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

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# SUMMARY

**1** The Government classifies a household as fuel poor when it needs to spend more than ten per cent of its annual income on energy costs. Over three million households in England were estimated to be in fuel poverty in 2007, and as of 2006 nearly two million were families with children, the elderly or occupants in long-term ill health, and thus classified as vulnerable. The majority are in private accommodation. The numbers of households in fuel poverty are likely to have risen as a result of increased fuel prices in 2007 and 2008, though prices appear to be easing.

**2** The Warm Homes and Energy Conservation Act (2000) requires the Government to ensure that, as far as reasonably practicable, people do not live in fuel poverty. Following the Act, the UK Fuel Poverty Strategy, issued in November 2001, detailed the targets to eradicate fuel

poverty across England, as far as reasonably practicable, in vulnerable households by 2010 and in all households by 2016. Three factors contribute to fuel poverty: low household income; high fuel prices; and poor energy efficiency. Warm Front (the Scheme) is a key programme of the Department of Energy and Climate Change (the Department) to tackle fuel poverty by improving energy efficiency in privately owned properties in England. The Department relies upon a contractor, eaga, to administer the Scheme on its behalf and to manage the 139 contractors, including seven wholly owned subsidiaries, responsible for the installation of heating and insulation measures. This report follows up earlier NAO examinations of the Scheme in 1998 and 2003 and focuses on the extent to which the Scheme has helped those in fuel poverty, the costs of the work done, and the Department's management of the contract.

## Our Key Findings

### Scheme administration

**3** The Scheme has assisted over 635,000 households between June 2005 and March 2008, at a cost of £852 million. The budget of £785 million available for the three years commencing April 2008 was increased to £859 million in September 2008. A further £100 million was announced by the Chancellor in November 2008.

With a projected average grant of £1,800, spending at this higher level would assist an estimated 533,000 households. Such progress would still leave a significant shortfall by 2010 when compared to the 1.9 million vulnerable households living in fuel poverty in private accommodation in 2006.

**4** Applicants are assessed on a 'first come first served' basis, with eligibility based on receipt of benefits used as a proxy for those most likely to be in fuel poverty. Analysis of the English House Condition Survey 2006 indicates that 57 per cent of vulnerable households in fuel poverty do not claim the relevant benefits to qualify for the Scheme. Yet nearly 75 per cent of households who would qualify were not necessarily in fuel poverty. In practice, a large number of these households may have otherwise fallen into fuel poverty or be 'near' fuel poverty as a result of reported fuel price increases in 2007 and 2008, though prices appear to be easing. Over 236,000 grant recipients between June 2005 and March 2008 (37 per cent) received only non-means tested benefits, but under Scheme regulations eaga were not required to check whether these recipients were in fuel poverty.

**5** When the grant does not cover the costs of work and alternative sources of funding, such as assistance from local authorities, cannot be found, applicants are required to pay the difference so the work can go ahead. The average contribution required in 2007-08 was £581, and nearly 25 per cent of applicants that year were asked to contribute to the cost of the work required. Customers are not able to obtain other quotes from an alternative supplier. Over 129,000 households between June 2005 and October 2008 have agreed to pay the difference, but 6,076 households withdrew from the Scheme and a further 14,326 households (as at October 2008) had not progressed their application. Approximately 1,600 households had kept their application on hold for over a year. The Department and eaga have not established why households withdrew or had not progressed their applications, although eaga plan to undertake an exercise in early 2009 to identify what proportion of these households were unable to pay.

**6** Between June 2005 and March 2008, £34 million was paid in grants to households whose properties were already comparatively energy efficient. If the eligibility rules were amended to exclude properties that already met the energy efficient standard set by the Department, such sums could be utilised to assist those vulnerable households who deferred or cancelled their applications for assistance because they could not afford the contribution required.

**7** On average, eaga estimate that the work done under the Scheme reduces a household's energy bill by approximately £300 a year, which we calculate has delivered savings to households of over £240 million between June 2005 and March 2008, although savings will vary significantly according to the measures installed. In addition, eaga has delivered cost savings to the Scheme, and approximately £45 million of income through the Carbon Emissions Reductions Target (CERT), whereby utility companies pay eaga to install insulation measures on their behalf. With the Department's agreement, the income received through CERT is added to the total Scheme funding available.

**8** Following the initial inspection of a property and the householder's agreement to proceed, it typically took 64 working days (approximately three months) in 2007-08 to have a heating system installed or 27 working days (approximately five weeks) to have the property insulated. The waiting time increased by an average of 27 working days when the customer had to pay the difference before the work was carried out. Whilst these timelines fall well within the target, it is still a long period of time for vulnerable households to wait for their work to be done. Where Scheme demand exceeds funding available, waiting times may be extended.

**9** Scheme satisfaction is high, with 86 per cent of households assisted by the Scheme satisfied with the quality of the work done, and five per cent dissatisfied. Where customer concerns were raised, they were around common themes such as installation, customer contributions and delays. Customers were also not always aware that the grant does not include boxing-in pipes and wires, or repairing plasterwork. Our review of 449 complaints (from financial years 2005-06, 2006-07 and 2007-08) found issues around referring complaints to more senior staff members, and logging and closing of complaints. In 2006-07 eaga retrained its staff on how to handle complaints more effectively so that complaints, where necessary, were referred to senior staff more quickly and complaints closed with the approval of the customer.

**10** The Scheme aims to help all vulnerable groups who might suffer from the cold, which has blunted its effectiveness in focusing on those in the worst cases of fuel poverty. In response to the recommendations on eligibility from the Committee of Public Accounts, the Department did make changes intended to improve the targeting of the Scheme. In practice, however, funds are still not necessarily focused enough on vulnerable households in fuel poverty. In addition, the Heating Rebate Scheme (available to all householders aged 60 or over who have no central heating system or one that is inoperable, but are not eligible for the Scheme) has received £23 million from the Scheme to help people who would not otherwise qualify for assistance.

**11** There are a number of other initiatives to help tackle fuel poverty through improving energy efficiency. There is a risk of duplication of effort between the Scheme and the Warm Zones project, which offers some of the same measures that the Scheme provides. The Warm Zones project targets geographic areas with fuel poor households and offers insulation measures from a wide range of sources including energy companies, local authorities and Warm Front.

## Costs and contract management

**12** Our cost comparisons for seven of the most common installation works undertaken by the Scheme indicate that the amounts charged appear to be competitive. Gas and oil boiler replacements costs are at the higher end of the range. These cost differences should be treated with some caution. It is difficult to make like for like comparisons because the Scheme often provides additional work depending on the needs of the grant recipient.

**13** The Department did not have adequate contract management arrangements in place from the outset. The Department did not appoint a specialist contract manager until summer 2007, some two years into the contract, and incorrect profit calculations in the 2006 and 2007 cost certificates provided by independent auditors were not identified until April 2008. In addition, eaga pointed out in their tender in 2004 that if it, rather than the Department was party to the contracts for the supply of heating materials, it could reduce the VAT payable on materials' costs to five per cent. The Department is investigating whether the transfer of contracts would result in a reduced rate of VAT, but as of November 2008 this issue had yet to be resolved. The Department deferred the introduction of its service credit and incentive payment regime, where eaga can be penalised or rewarded against service standards, until early 2007.

**14** The Department has a balanced scorecard to manage and monitor the contract as well as to measure eaga's performance against 43 different criteria, but some may not be sufficiently challenging to drive improved performance. For example, compared to a target of 120 working days, it took an average of 64 working days to install a heating measure in 2007-08. In mid-2007 the Department sought to tighten its management of the contract, and in January 2008 started discussions with eaga to clarify contract terms. The Department has recently commissioned an external consultant to review its contract management arrangements, and expects this work to be complete by mid-2009.

## Conclusion on value for money

**15** The £852 million spent on the Scheme between June 2005 and March 2008 has, according to eaga's estimation, delivered savings of around £300 per year for each household over the lifetime of the measures installed, which amounts to savings to households of over £240 million. Between June 2005 and March 2008 the Scheme has assisted over 635,000 households. Customer satisfaction is high, with 86 per cent of households satisfied with the work done. The contractor has been proactive and innovative in delivering cost savings, including £45 million through trading insulation measures with utility companies. Cost comparisons for seven of the most common installation works indicate that the amounts charged are competitive with industry prices, though gas and oil boiler replacements were at the higher end of the range, partly because of Scheme specifications. The delivery of the Scheme has been largely effective and to that extent has provided value for money.

**16** Value for money has, however, been impaired by problems in Scheme design. Reliance on benefits may be a pragmatic, proxy measure to determine eligibility, but the inclusion of non-means tested benefits has led to households unlikely to be in fuel poverty being able to claim a grant. In addition, the Scheme provided grants of £34 million between June 2005 and March 2008 to households whose property was already comparatively energy efficient. The Department and eaga have not established why households asked to make a contribution withdrew or did not progress their application. As a consequence, we cannot establish how many vulnerable households were excluded from the Scheme because they could not afford to pay.

## Our Recommendations

**A The use of proxy measures, such as benefit entitlement, to determine who is eligible for Scheme grants has resulted in inefficient targeting of resources.** To better target grants to the fuel poor, the Department should:

- amend the Scheme eligibility rules to exclude those households where the property is already energy efficient;
- focus efforts to help those in hard to treat homes through the use of alternative technologies; and
- establish whether the £300 Heating Rebate Scheme has helped vulnerable households to avoid falling into fuel poverty.

**B There are a range of Government initiatives and programmes at both local and national levels to help tackle fuel poverty, which risk duplicating efforts in targeting and assisting fuel poor households.** The progress that Warm Front has made in working with some other Government schemes, such as CERT, shows the benefits of cooperation. The Department should make effective arrangements to enable work on the different energy efficiency schemes to be coordinated.

**C Although measures provided by the Scheme appear to be price competitive, most customers who have a heating system installed make a contribution towards the costs.** Households that cannot afford to pay the difference between the cost of work and the grant available and who are unable to find the funds from elsewhere could thereby be excluded from the Scheme, as existing Scheme rules do not allow householders to seek quotations from elsewhere. The Department should:

- establish what proportion of the 20,400 households who had either cancelled their application or had not progressed it did so because they could not afford to pay the difference between the grant available and the cost of the proposed work on their property;
- determine whether savings made from the amended scheme eligibility rules under our Recommendation A might help to support vulnerable households unable to pay the difference between the grant available and the cost of the proposed work on their property; and

- commission the Scheme quality assurance assessors to:
  - i) investigate whether the specifications for heating measures installed by the Scheme could be changed to reduce costs without undermining the reliability, safety and efficiency of the central heating systems; and
  - ii) examine whether for more expensive measures such as oil, Scheme rules could be revised to enable households to seek, if they wish, quotations from other accredited companies in the area, without undermining security of customers.

**D The Department did not have adequate contract management arrangements in place from the outset.**

Contracts of this magnitude and importance require specialist staff with relevant contract management and procurement expertise from the outset.

The Department should:

- make sure that there are sufficiently experienced and qualified officials in place to manage each contract commensurate with its risk to the organisation; and
- simplify its balanced scorecard on the Scheme to enable its contract management team to focus on key indicators, and review whether these indicators, such as heating installations to be completed within 120 days, are sufficiently challenging.

# PART ONE

## The Scheme's role in tackling fuel poverty

### Fuel poverty

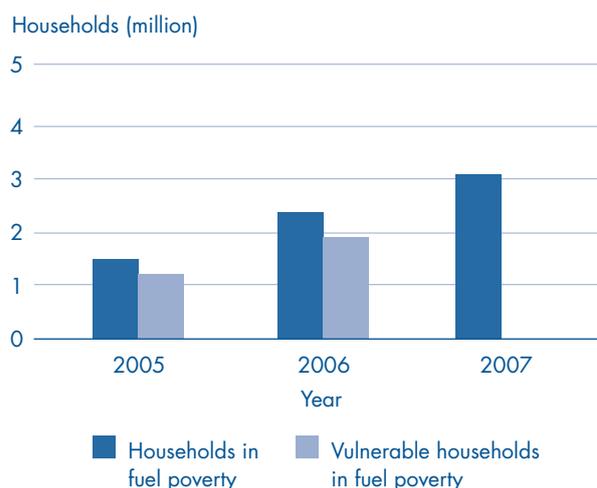
**1.1** A household is defined as fuel poor when it needs to spend more than ten per cent of its net income on fuel to maintain an adequate heating regime, which is approximately 21°C in the main living room and 18°C in other occupied rooms during daytime hours. Fuel poverty is caused by three factors: the poor energy efficiency of the property, household income and the price of fuel.

**1.2** The Warm Homes and Energy Conservation Act (2000) requires the Government to ensure that, as far as reasonably practicable, people do not live in fuel poverty. Following the Act, the UK Fuel Poverty Strategy, issued in November 2001, detailed the targets to eradicate fuel poverty across England, as far as reasonably practicable, in vulnerable households by 2010 and in all households by 2016. In 2008, Friends of the Earth and Help the Aged applied for a judicial review, claiming that the Government had not done all that was reasonably practicable to reach the target, but this application was dismissed and as at November 2008 was under appeal.

**Figure 1** shows that the estimated number of households in fuel poverty has risen by 1.6 million between 2005 and 2007. Over three million households were estimated to be fuel poor in 2007,<sup>1</sup> some 14 per cent<sup>2</sup> of all households in England. In 2006, approximately two million of these were likely to be from vulnerable groups.

### 1 Estimated number of households in fuel poverty in England 2005-2007

The number of fuel poor households has risen to an estimated 3.1 million in 2007.



Source: National Audit Office summary of data from UK Fuel Poverty Strategy 6th Annual Progress Report, 2008

#### NOTE

Because of the delay between collection of the data and analysis, the 2007 figure cannot be broken down to estimate the number of vulnerable households.

<sup>1</sup> UK Fuel Poverty Strategy 6th Annual Progress Report, 2008.

<sup>2</sup> Department for Communities and Local Government. Projections of Households in England (2007), table C. Estimates based on 2004 figures.

**1.3** The main factor behind the rise in fuel poverty between 2005 and 2007 has been the price of fuel. In its 2004 Fuel Poverty Action Plan the Department considered the future impact of increased fuel prices on fuel poverty, with a high-case scenario based on electricity prices rising in real terms by 26 per cent between 2005 and 2010, and gas prices falling four per cent during that period.<sup>3</sup> In practice, average domestic bills for England and Wales have risen in real terms by 55 per cent for gas and 42 per cent for electricity between 2004 and 2008, though prices appear to be easing.

## The Warm Front scheme

**1.4** The Warm Front scheme (the Scheme), launched in 2000, is a key programme of the Department of Energy and Climate Change (the Department) and previously the Department for Environment, Food and Rural Affairs to tackle fuel poverty in England. The Scheme was developed from the Home Energy Efficiency Scheme (which began in 1991), to reduce CO<sub>2</sub> emissions. The UK Fuel Poverty Strategy, published in November 2001, identified the Scheme as a key programme in tackling fuel poverty because it addresses poor energy efficiency, and therefore reduces household energy bills. In 2006 the Department reported that the Scheme was its third most effective programme for cutting CO<sub>2</sub> emissions.<sup>4</sup>

**1.5** The Scheme provides a grant of up to £2,700, or £4,000 if an oil central heating system is required, to pay the installation cost of heating and insulation measures in vulnerable private sector households. Vulnerable households are those with low incomes containing older people, families with children, or those who are disabled or have a long-term illness. The English House Condition Survey 2006 estimated that two million (84 per cent) fuel poor households were either owner-occupiers or in privately rented accommodation. The Department's contractor for the Scheme, eaga, estimates that on average it has reduced grant recipients' energy bills by £300 a year,<sup>5</sup> amounting to savings to households of over £240 million between June 2005 and March 2008.

**1.6** The Department considers it would be difficult to identify which households need to spend over ten per cent of net income on fuel bills, so it has relied on proxy measures to determine eligibility instead. **Figure 2 overleaf** shows that households in receipt of any of the benefits listed could be entitled to the different measures shown.

**1.7** To assess the effectiveness of the Scheme, the Department measures how many households have been assisted, and how much the energy efficiency of the house has been improved. The Government's recommended system for assessing the energy efficiency of dwellings is the Standard Assessment Procedure, or SAP rating, which has a range from one to 100.<sup>6</sup> A household that has a SAP rating of 100 is very energy efficient, and few households where the dwelling has a SAP rating greater than 65 are likely to be fuel poor (two per cent in 2006).<sup>7</sup>

## Administration of the Scheme

**1.8** The Department has contracted out Scheme administration since the inception of the Home Energy Efficiency Scheme in 1991, when it appointed eaga Ltd. eaga Ltd. had been established in 1990 specifically for this purpose by the national energy efficiency charity, National Energy Action, as an independent non-profit-distributing company limited by guarantee. In 2000, eaga Ltd. was restructured into an employee-owned limited company, eaga Partnership Ltd., and in June 2007 it floated on the London Stock Exchange to become eaga plc. It also administers the corresponding fuel poverty schemes in Northern Ireland and Wales, and until recently did so in Scotland.

**1.9** When the Department launched the Scheme in 2000 it divided England into four geographical areas and engaged two contractors, TXU Powergen and eaga Partnership Ltd., to act as Scheme managers. When the Department re-awarded the contract in June 2005, eaga Partnership Ltd. was the most economically advantageous bidder in all four areas and was awarded the contract for each. The contract runs to 2010 with an option to extend for a further two years. We have used the company's operational name, eaga, in this report to refer to eaga plc.

<sup>3</sup> Department for Environment, Food and Rural Affairs, *Fuel Poverty in England: The Government's Plan for Action* (2004), Part 2.2.

<sup>4</sup> Department for Environment, Food and Rural Affairs, *Synthesis of Climate Change Policy Evaluations*, April 2006.

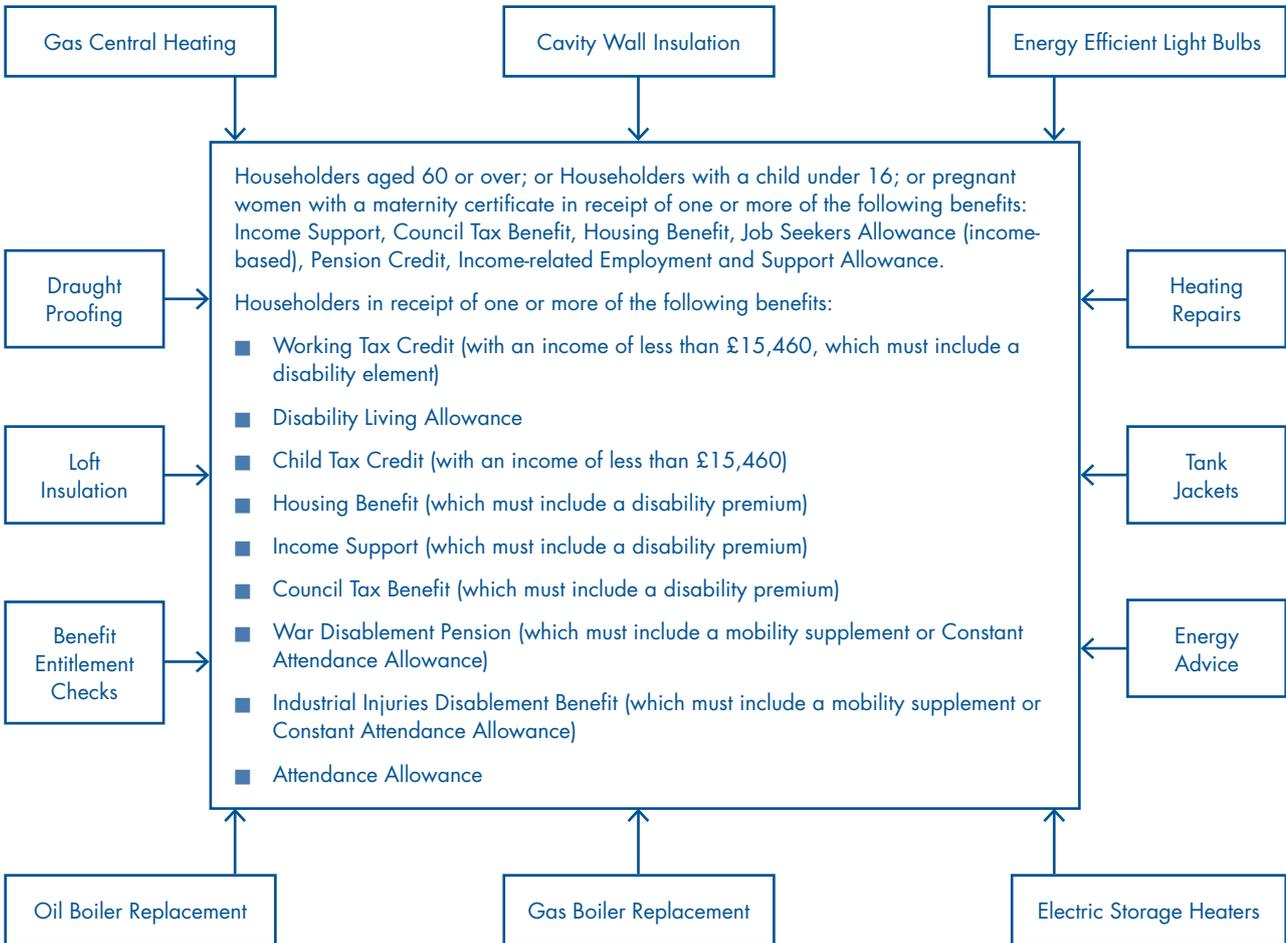
<sup>5</sup> Business and Enterprise Committee, *Energy prices, fuel poverty and Ofgem*, (Eleventh Report of Session 2007-08, HC 293-I), para. 119.

<sup>6</sup> For consistency of measurement across the Scheme, eaga measure SAP on the previous range (SAP 2001) which is from one to 120.

<sup>7</sup> *The UK Fuel Poverty Strategy: 6th Annual Progress Report 2008*, page 55.

## 2 Eligibility criteria and types of measures

Eligibility for the Scheme is based on proxy measures.



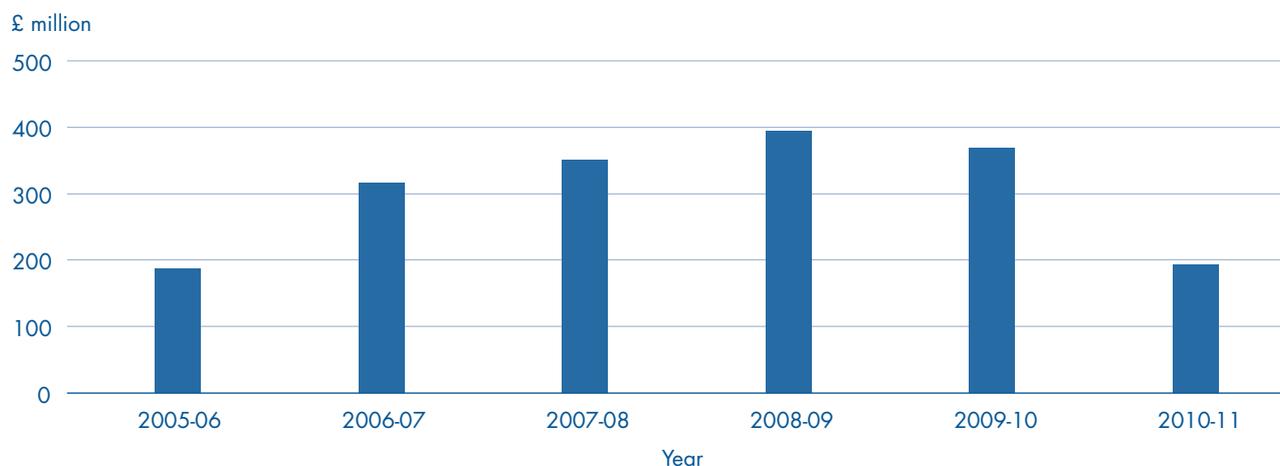
Source: National Audit Office analysis of information from the Department and eaga

**1.10** eaga employs a framework of subcontractors to deliver the Scheme. The customer application process relies on self-referral, which means that potential customers have to contact the Scheme manager to determine whether they are eligible. eaga has a team of networkers that market and publicise the Scheme by targeting fuel poor areas to support the self-referral process. eaga allocates a contractor from its framework to carry out the work once an applicant’s eligibility for the Scheme has been established. An aftercare service is provided to customers who have had a full gas system installed, a replacement gas boiler or those requiring a major gas repair costing over £250. The service is a joint venture between eaga and Ideal Boilers and provides cover for two years following installation. Appendix 2 outlines the structure and delivery of the Scheme in more detail.

**1.11** In December 2005, six months after the current contract began, the Pre-Budget Report announced a 50 per cent increase in funding for the Scheme from 1 January 2006 to 31 March 2008. **Figure 3** shows that between 2005-06 and 2007-08 annual funding rose from £187 million to £350 million. In 2007-08, 83 per cent of funding was spent on grants, including £250 million on heating and £33 million on insulation measures, and the remainder on: Scheme administration (£31 million), initial surveys (£17 million), post-installation inspections (£7 million) and undertaking benefit entitlement checks for applicants (£3 million). Following the Comprehensive Spending Review in 2007, Scheme funding was set at £785 million over three years from April 2008, and was increased in September 2008 to £859 million. In addition, the Chancellor announced in November 2008 that the Scheme would receive a further £100 million funding in

### 3 Scheme funding, 2005-06 to 2010-11

By 2010-11 the Scheme will have received £1,811 million in funding.



Source: National Audit Office analysis of data from the Department

total for 2008-09 and 2009-10. The £959 million available is enough to assist approximately 533,000 households based on the projected average grant of £1,800 in 2008-09.

## Our work

**1.12** The National Audit Office previously examined the Scheme in 1998 and 2003.<sup>8</sup> The Committee of Public Accounts took evidence and published its own report on both occasions. A summary of the Committee's 2003 recommendations and progress the Department has made in implementing them is at Appendix 3.

**1.13** Our report focuses on:

### Part 2: Service provided to customers

- whether customers are satisfied with the Scheme;
- the quality and consistency of the Scheme;
- the effectiveness of the Scheme at targeting those in fuel poverty; and
- whether the Scheme removes households from fuel poverty.

### Part 3: Cost management

- the amount of grant available under the Scheme;
- the costs of work completed under the Scheme; and
- the numbers of customers asked to make a contribution.

### Part 4: Contract management

- the Department's management of the Scheme contract; and
- the profit share arrangement between the Department and eaga.

<sup>8</sup> *Warm Front: Helping to Combat Fuel Poverty*, HC 769, Session 2002-03 and *The Home Energy Efficiency Scheme*, HC 556 Session 1997-98.

# PART TWO

## Service provided to customers

### Scheme satisfaction levels

**2.1** The Scheme has assisted over 635,000 households between June 2005 and March 2008. eaga conducts surveys of customers, which show that satisfaction levels for the Scheme are high. Our analysis found that 86 per cent of customers were satisfied with the work carried out including 75 per cent who were highly satisfied, with five per cent of customers being dissatisfied. Eighty-nine per cent of customers were satisfied or highly satisfied with the overall quality of workmanship and 84 per cent would recommend the service to a close friend or relative.

**2.2** Complaints to the Scheme have remained relatively static at around 1.5 per cent between June 2005 and March 2008, and 0.5 per cent of these complaints were upheld. Where complaints have been received, they tend to be on common themes relating to installation (workmanship, mess and damage), customer contributions, delays and aftercare. Customers were not necessarily aware that the grant does not cover hiding or boxing-in of pipes and wiring, although the scope of the Scheme is explained in the literature given out.

**2.3** In our review of complaints files we found a time delay between customers calling to report an issue and when a complaint was logged, which resulted in customers waiting longer than necessary. On occasion, we also found that when a complaint was passed from eaga to a subcontractor, it was closed on the system without work being completed and a conclusion to the issue reached. The Department's Scheme quality assurance assessors, White Young Green, found that staff did not always refer complaints to more senior team members, and that some complaints were closed incorrectly in 2007.<sup>9</sup> eaga introduced new procedures and training in 2006-07 within both their call centre and their customer management team so that customer advisers know when to refer issues upwards and complaints are closed with the approval of the customer.

### Variations in service

**2.4** As the Scheme relies largely on self-referral, many vulnerable households who are eligible are not aware they are entitled to a grant. eaga has sought to develop relationships with a range of organisations to improve its service to those groups that have been particularly hard to reach in the past. This work has improved the take up of grants amongst certain groups: between June 2005 and March 2008, 17 per cent of assisted households were from black and minority ethnic groups, which made up eight per cent of the vulnerable fuel poor in 2006.<sup>10</sup> However, other hard to reach groups are not benefiting to the same extent: rural households made up 28 per cent of vulnerable fuel poor households in 2006, but only 15 per cent of assisted households were in rural areas, partly because the Scheme lacks a full range of measures to assist hard to treat households, such as external wall insulation.

**2.5** The Department agreed installation targets with eaga, which include 120 working days for heating and 40 working days for insulation. In 2007-08, 91 per cent of heating installations and 87 per cent of insulation measures were installed within the target time. The average number of days for installing heating in 2007-08 was 64 days and for insulation 27 days. **Figure 4** shows there are differences between regions and between rural and urban areas for the average time taken to complete jobs. eaga has found it difficult to find sufficient subcontractors to install oil-heating systems in rural areas where mains gas is not available, contributing to rural households being more likely to wait longer for heating to be installed, although still within target timelines.

<sup>9</sup> Quality Assurance Assessor Report, White Young Green, July 2007.

<sup>10</sup> English House Condition Survey 2006.

## Scheme eligibility

**2.6** When we last examined the Scheme in 2003, a third or more fuel poor households were not being reached.<sup>11</sup> In response, the Department introduced a number of measures intended to improve its targeting of the Scheme, which are outlined in **Figure 5 overleaf**. The only change that the Department made to the eligibility criteria for the Scheme was to add pension credit to the list of qualifying benefits in 2003. The Department argued that a more fundamental review of eligibility would be inappropriate because existing criteria are more cost effective to administer, help identify those at risk of being fuel poor, and target those who would benefit from warmer homes.

**2.7** Analysis of the 2006 English House Condition Survey indicates that the Scheme is only available to approximately 43 per cent of all vulnerable households in fuel poverty, and 35 per cent of all fuel poor households. One of the reasons is that many people do not claim benefits to which they are entitled: the Department for Work and Pensions has calculated, for example, that at least a third of people eligible for pension credit did not claim it in 2006-07.<sup>12</sup> Those applying to the Scheme are offered a benefit entitlement check, which checks if the applicant is eligible for additional benefits that they are not currently claiming and which may make them eligible for the Scheme. In 2007-08, eaga estimate that 5,500 customers who were not initially eligible for the Scheme, became eligible as a

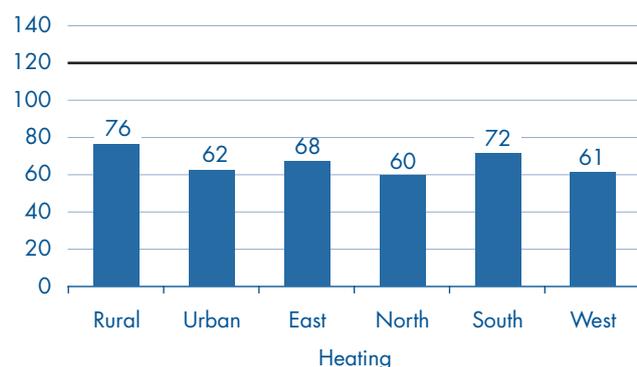
result of a benefit entitlement check, and that these checks have resulted in potential annualised additional benefits to claimants of approximately £35 million. The Scheme does not cover people considered non-vulnerable fuel poor, such as those below 60 who do not have dependent children or a disability, those in employment and those whose income is just sufficient to make them ineligible for qualifying benefits.

**2.8** According to the 2006 English House Condition Survey, nearly 75 per cent of vulnerable households eligible for the Scheme were not fuel poor, although in view of the reported fuel price increases in 2007 and 2008, a large proportion of these households may have since fallen into fuel poverty and many may be 'nearly' fuel poor. Prices do, however, appear to be easing. The percentage of eligible households that were not fuel poor is broadly similar to modelling work carried out by TXU Powergen and eaga, the Scheme managers at the time of our previous report, which suggested that between 60 and 70 per cent of those receiving grants then may not have been fuel poor.<sup>13</sup> Some non-means tested benefits, such as disability living allowance and attendance allowance, may not indicate whether a household is likely to be fuel poor. Between June 2005 and March 2008, over 236,000 (37 per cent) of grant recipients received only non-means tested benefits. Removing eligibility for all non-means tested benefit recipients would however create a risk that some fuel poor households would become ineligible.

### 4 Time taken to install measures in 2007-08

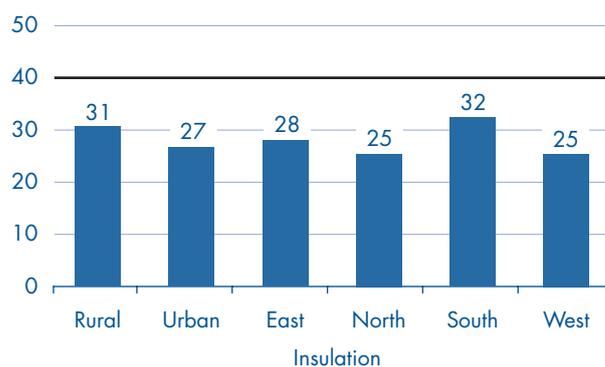
There are regional variations in the time taken to install measures.

Working days



— Heating installation target

Working days



— Insulation installation target

Source: National Audit Office analysis of data from eaga

#### NOTE

Figures are not mutually exclusive. The rural and urban figures are also represented in each of the four regions.

11 *Warm Front: Helping to Combat Fuel Poverty*, HC 769, Session 2002-03, para 2.8.

12 Department for Work and Pensions, *Income Related Benefits Estimates of Take-Up in 2006-07* (2008), page 11.

13 *Warm Front: Helping to Combat Fuel Poverty*, HC 769, Session 2002-03, para 2.8, page 14.

## 5 Key changes to the Scheme

- Aim to increase the energy efficiency rating of assisted houses so that it achieves a SAP rating of at least 65 where practicable.
- Extend benefit entitlement checks to households in hard to heat homes where the Scheme is unable to take the energy efficiency rating above SAP 65.
- Introduce alternative technologies as cost effective measures become available.
- Offer oil central heating, if other energy efficient solutions are inappropriate.
- Encourage the Scheme managers to work more closely with other energy efficiency schemes, to ensure that fuel poor households receive the maximum possible benefits and the best possible customer service.
- Encourage greater activity in areas where there are high proportions of fuel poor households.
- Enable households that have previously received assistance to apply for help under the revised Scheme.

Source: Department for Environment, Food and Rural Affairs, *Fuel Poverty in England: The Government's Plan for Action (2004)* p4

**2.9** Some of the Scheme funding is directly used to support households that are not fuel poor or homes that are already relatively energy efficient. The Heating Rebate Scheme, launched in 2006-07, provides £300 in vouchers to householders aged 60 or over who do not have a working central heating system and are not eligible for assistance under the Scheme. As of March 2008, £23 million of Scheme funding was used to fund the £300 rebate scheme, including £20 million (six per cent of total Scheme funding) in 2007-08. Eighteen per cent of households that have received assistance under the Scheme since between June 2005 and March 2008 already had a SAP rating above 65, meaning they are less likely to have been fuel poor. The average grant awarded to these households was £409, which amounts to £34 million in total. In practice, however, the SAP rating of individual households would not be known until an assessor visits.

### Improvements in household energy efficiency

**2.10** The interventions have helped to improve the energy efficiency of properties. **Figure 6** shows that between June 2005 and March 2008 the SAP rating of properties improved following Scheme assistance (the bar chart on the right). Households with the lowest SAP rating (20 or below) decreased from 21 per cent to only four per cent after assistance. Scheme expenditure is proportionate to

the SAP rating of households, with a higher percentage of expenditure on households with a lower SAP rating. Despite the improvement in SAP rating shown in Figure 6, however, over half of households assisted have had a SAP rating increase of ten points or less, a similar figure to that which we reported in 2003.<sup>14</sup> In some properties, the level of SAP improvement may have been compromised by the use of secondary heating sources which are energy inefficient, such as gas fires that would negatively affect the overall SAP of a household.

**2.11** Compared to when we last reported, there appears to be little reduction in properties receiving minimal measures, such as two low-energy light bulbs (£4.9 million spent between June 2005 and March 2008), draught proofing (£10.2 million spent since 2005), and tank jackets (£0.3 million spent since 2005).<sup>15</sup> These measures have been retained by the Scheme as part of the Government's wider initiative to reduce carbon emissions. Such measures have limited effect on the overall energy efficiency of the property, however, and result in only slight annual cost savings, so are unlikely to improve a recipient's fuel poverty status. The Association for the Conservation of Energy, for example, calculates that low-energy light bulbs contribute to savings in a household's energy costs of between £30 and £40 a year. Between June 2005 and March 2008 these savings equate to £46.6 million, and 24 per cent of assisted households have received only this measure.

**2.12** The Scheme has particular difficulty in helping people out of fuel poverty who live in hard to treat homes. For example, 43 per cent of the fuel poor lived in solid wall properties in 2005.<sup>16</sup> Treating these households is difficult and expensive, and some measures delivered under the Scheme, such as cavity wall insulation, are not appropriate. After treatment, 65 per cent of properties built before 1929 continued to have a SAP rating of below 65, as did 60 per cent of those with solid walls, compared to 47 per cent of all assisted households in the period June 2005 to March 2008.

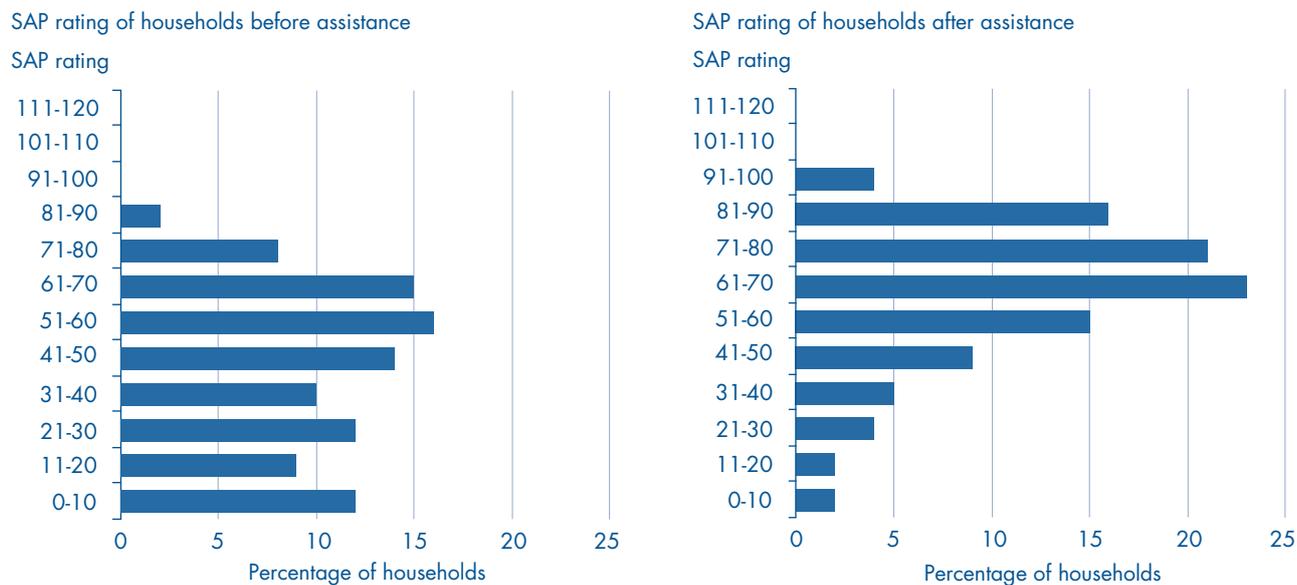
**2.13** Since 2005, the Department and eaga have evaluated various new technologies and have piloted some use of these in small numbers, including solar power and air source heat pumps. These can be expensive for grant recipients, however, particularly as Scheme legislation does not explicitly allow the use of the larger grant of £4,000 for any measures other than oil. In addition, the Department is concerned with the appropriateness of using new technologies in vulnerable households until their effectiveness has been proven.

<sup>14</sup> *ibid.*

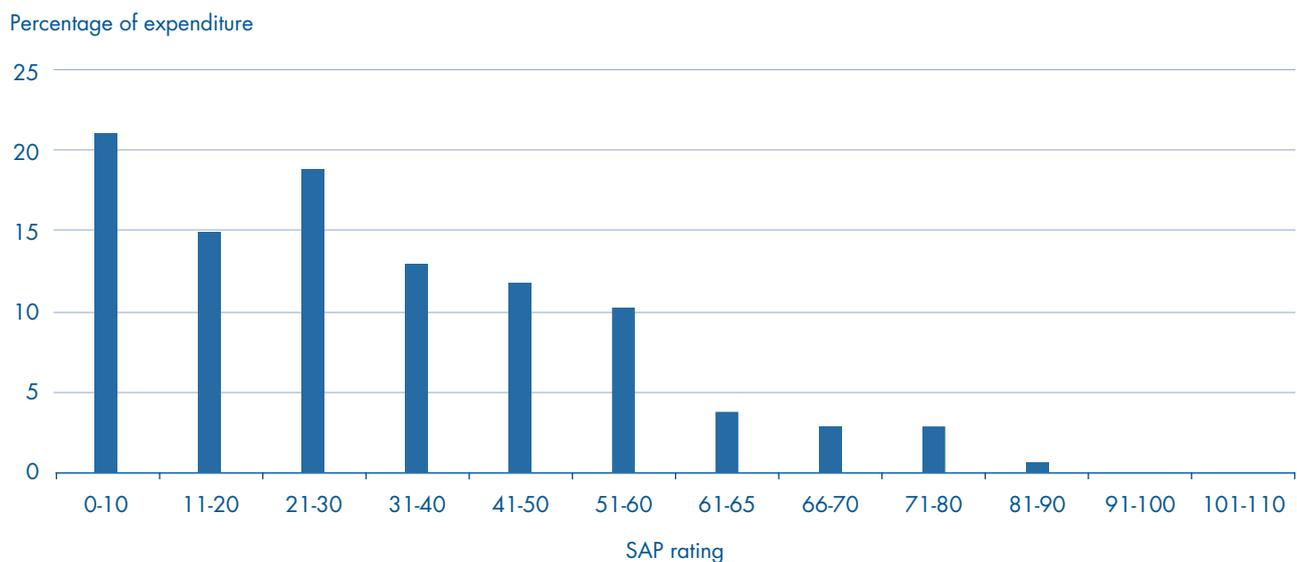
<sup>15</sup> *ibid.*, paras. 3.14-3.16.

<sup>16</sup> Fuel Poverty Advisory Group, 6th Annual Report, 2007.

## 6 Average SAP improvement following Scheme assistance between June 2005 and March 2008



Scheme expenditure by original SAP rating, June 2005 to March 2008



Source: National Audit Office analysis of data from eaga

## Coordination with other energy efficiency programmes

**2.14** There are a number of other government funded energy efficiency schemes alongside the Scheme (see Figure 7). The Carbon Emissions Reduction Target (CERT), for example, is an obligation on energy suppliers to achieve targets for promoting reductions in carbon emissions in the household sector. Suppliers must direct at least 40 per cent of carbon savings to a priority group of low-income and elderly consumers. eaga works with utility companies to 'trade' insulation measures. Companies allow eaga to install insulation measures in households on their behalf, and can then count these measures towards their CERT targets. The income received by eaga from the utility companies is, with the agreement of the Department, added to the total Scheme funding available. Between 2005 and 2008, eaga has reinvested £44.6 million back into the Scheme as a result of its work with utility companies.

**2.15** There is a risk of duplication of effort between the Scheme and the Warm Zones project. The Warm Zones project targets areas with fuel poor households and offers insulation measures from a wide range of sources, including energy companies, local authorities and Warm Front. Warm Zones also offers welfare benefits advice and claim support and, depending on area, can offer other services such as advice about health issues, debt, fire safety and home security. Warm Zones is a community interest company and a wholly owned subsidiary of National Energy Action, a national energy efficiency charity.

### 7 Other initiatives to help tackle fuel poverty through improving energy efficiency

| Programme                           | Area Covered      | Brief Description BRE Model Highest Price of Aims   |
|-------------------------------------|-------------------|---|
| Carbon Emissions Reduction Target   | Great Britain     | An obligation on energy suppliers to reduce CO <sub>2</sub> emissions in the domestic sector and bring about a general improvement of the housing stock as a result.  |
| Decent Homes Standard               | England           | This is a minimum standard below which homes should not fall. It includes a thermal comfort element that requires the presence of efficient heating and effective insulation in homes. There are similar standards for Scotland and Wales.                  |
| Warm Zones                          | England           | To deliver affordable warmth to low-income and other vulnerable households, as well as energy efficiency measures for the able to pay. Warm Zones now operate across 45 local authority areas in England.   |
| Low Carbon Buildings Programme      | England and Wales | Pilot project, announced in May 2008 that will operate in Wales and three English Regional Development Agencies, to fund the purchase of microgeneration technologies and their installation in households in deprived communities.                         |
| Community Energy Efficiency Fund    | England           | Launched in June 2007, it invited applicants to apply for support for projects working to develop cost effective options for the delivery of Warm Front and CERT on a local basis.  |
| Community Energy Savings Programme  | Great Britain     | Announced in September 2008, it proposes a new programme to install energy efficiency measures, targeted at the country's poorest communities, by supporting new and existing partnerships of local councils, voluntary organisations and energy suppliers. |
| Local Authority Indicators          | England and Wales | Measures progress in tackling fuel poverty through the improved energy efficiency of households by measuring the proportion of households on income-related benefits who have a SAP of below 35 or greater than 65.   |
| Helping households off the gas grid | Great Britain     | An Ofgem programme, currently being finalised, to incentivise companies to provide connections to deprived communities currently off the gas network.   |

Source: The UK Fuel Poverty Strategy: 6th Annual Progress Report 2008

# PART THREE

## Cost management

### Grant maximum

**3.1** The Scheme grant maximum of £2,700, or £4,000 if an oil central heating system is required, has not changed since July 2005. When the cost of heating work provided under the Scheme exceeds the grant maximum, and alternative sources of funding cannot be found, applicants must pay the difference to the installer before the work can take place. Under the grant conditions, customers are not able to obtain other quotes from alternative suppliers as the Scheme has a framework of contractors that it uses to carry out the work. **Figure 8** shows that the number of applicants asked to make a contribution has risen from under one in ten in 2005-06 to nearly one in four in 2007-08. The average contribution per household has increased from £415 to £581. Those customers receiving heating measures are much more likely to need to contribute towards the costs: 62 per cent had to do so between January and March 2008. During our consultation with charities and energy advice centres, they noted that the increase in customers having to pay towards work was the biggest source of concern.

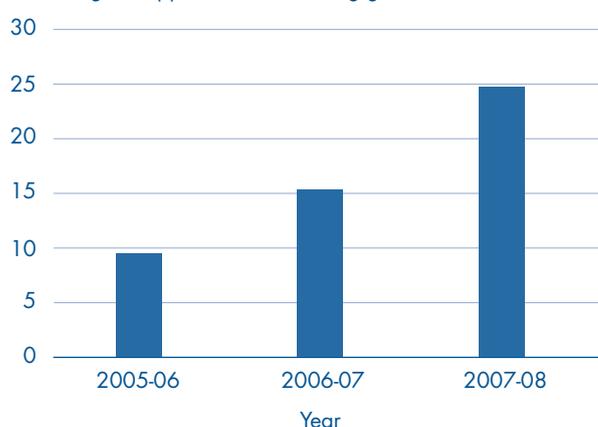
**3.2** When the contribution required is small the installer may waive the sum. In the period June 2007 to May 2008, eaga has waived £1.2 million in customer contributions. eaga will also advise a household to apply for funding from their local authority, although the responses of local authorities to such requests vary across the country. Some customers have complained that the lack of information provided by the Scheme about precisely what work is proposed and its cost has made it difficult to secure additional funding from elsewhere. In many cases, the shortfall has to be paid by grant recipients themselves. As the Scheme targets vulnerable households, it is likely that those that are most fuel poor are those that find it most difficult to pay.

**3.3** The total amount of customer contributions required between 1 June 2005 and 27 October 2008 was £79.6 million. **Figure 9 overleaf** shows that as of October 2008, 6,076 households (four per cent) required to pay a contribution cancelled their application, and 14,326 households (ten per cent) had not progressed their application. As of October 2008, 1,695 (12 per cent) of those jobs on hold had been on hold for over one year. In 2007-08 the average time taken for a heating installation to be completed when a contribution is payable was 91 days, compared to an average of 64 days for all installations. The Department and eaga have not established why households have not gone ahead with their application and, therefore, to what extent vulnerable households were excluded from the Scheme because they were unable to pay the difference. eaga, however, plan to undertake an exercise in early 2009 to identify what proportion of these households were unable to pay.

**8** Percentage of applications exceeding the grant maximum, 2005-06 to 2007-08

The number of customers required to make a contribution has risen to nearly 25 per cent in 2007-08.

Percentage of applications exceeding grant maximum



Source: National Audit Office analysis of data from eaga

**3.4** Figure 10 shows that customer contributions are more likely to adversely affect some applicants:

- hard to treat homes (built pre-1929, no loft cavity, off the gas network or having solid walls) are more likely to require contributions, and the average amount payable is slightly higher (£555) than the overall average;
- households in rural locations, some of which may also be classified as hard to treat, are liable to require contributions of £869, 62 per cent higher than the average; and
- applicants who have previously received a grant are liable to contributions that are 28 per cent higher than average.

**3.5** The grant available to an applicant will be less if the property has received previous grants under the Scheme. For example, if an applicant who had previously received a £500 grant for work made a further application to improve the household's central heating, the grant available for the second application would be capped at £2,200. Of the 115,821 applicants between June 2005 and March 2008 who have been asked to pay a contribution, 31,101 (27 per cent) had received previous Scheme grants, though returning customers make up just 18 per cent (117,447) of the total number of households assisted under the Scheme.

## Scheme costs

**3.6** Although the grant maximum has not changed since 2005, pricing schedules have been revalorised twice since then, with labour costs for gas and oil central heating increasing by 8.9 per cent and the labour costs for all other services increasing by 7.3 per cent. The cost of materials for heating installations was set when the Department let two contracts in July 2005, one for gas and oil central heating and the other for electric heating equipment and hot water systems. Since then the prices for materials have increased on average by approximately five per cent. Figure 11 shows that between 2005-06 and 2007-08 the average cost of measures installed under the Scheme has increased by between two per cent and nine per cent, over which period the Retail Price Index increased by 11 per cent.

### 9 Status of applications exceeding grant maximum, June 2005 to October 2008

Almost £80 million has been requested in customer contributions since 2005.

| Applications   | Number of households | Amount (£m) |
|----------------|----------------------|-------------|
| Complete       | 129,022              | 62.7        |
| Not progressed | 14,326               | 11.9        |
| Cancelled      | 6,076                | 5.0         |
| Total          | 149,424              | 79.6        |

Source: National Audit Office analysis of data from eaga

#### NOTE

Figures are based on the status of applications on 27 October 2008.

### 10 Customer contributions for hard to treat, rural households and previous grant recipients, June 2005 to March 2008

Previous grant recipients are more likely to be asked to make a contribution.

|                           | Number of households assisted | Percentage requiring customer contribution | Average customer contribution |
|---------------------------|-------------------------------|--|-------------------------------|
| All households            | 636,574                       | 18   | £538                          |
| Hard to treat households  | 389,665                       | 23   | £555                          |
| Previous grant recipients | 117,447                       | 26   | £690                          |
| Rural households          | 95,582                        | 17   | £869                          |

Source: National Audit Office analysis of data from eaga

#### NOTE

Figures are not mutually exclusive.

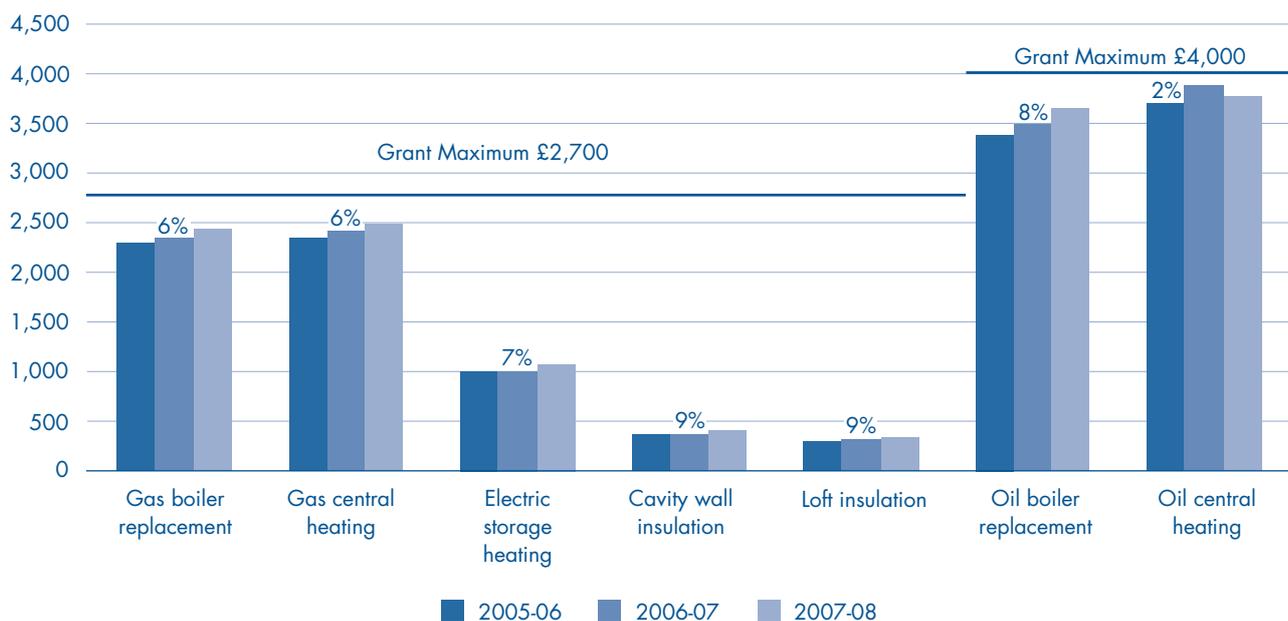
**3.7** eaga appointed a panel of installers for each of its 62 areas and established a harmonised pricing schedule for labour charges. The schedules are based on the average of the two lowest tenders in each area, for all tasks apart from oil and liquefied petroleum gas boiler installations, which were set at the tendered price because of uncertainties about likely demand. The harmonised pricing schedule was offered to each qualifying contractor (139 contractors in 2007-08), and all work undertaken in an area is completed by one of these contractors using the agreed pricing schedule. **Figure 12 overleaf** shows that there are only slight regional differences in the cost of work for the same mix of measures. However, similarly specified jobs can cost significantly different amounts in different areas. For example, our analysis of the 62 areas shows that there is approximately a 16 per cent difference in the average cost of the most expensive price decile of areas and the lowest price decile of areas.

**3.8** eaga-owned subsidiaries, under the terms of the contract with the Department, can undertake up to 30 per cent of work under the Scheme. The contract does not specify whether this limit relates to the value of work or number of jobs, or whether the percentage is to be measured each year or over the lifetime of the contract. The Department are reviewing this clause so as to clarify how the percentage should be calculated. Between June 2005 and March 2008 installations undertaken by eaga and its subsidiaries have accounted for 25 per cent of spending on grants, and in 2007-08 work done by its seven subsidiaries represented 30 per cent of the overall value of installation work and 31 per cent of all jobs completed. eaga subsidiaries did not submit tenders so as not to influence the price harmonisation process, but their costs are in accordance with the relevant area schedule.

### 11 Average cost of measures installed under the Scheme

Average prices have increased but the grant maximum has remained the same.

Average Cost (£)



Source: National Audit Office analysis of data from eaga

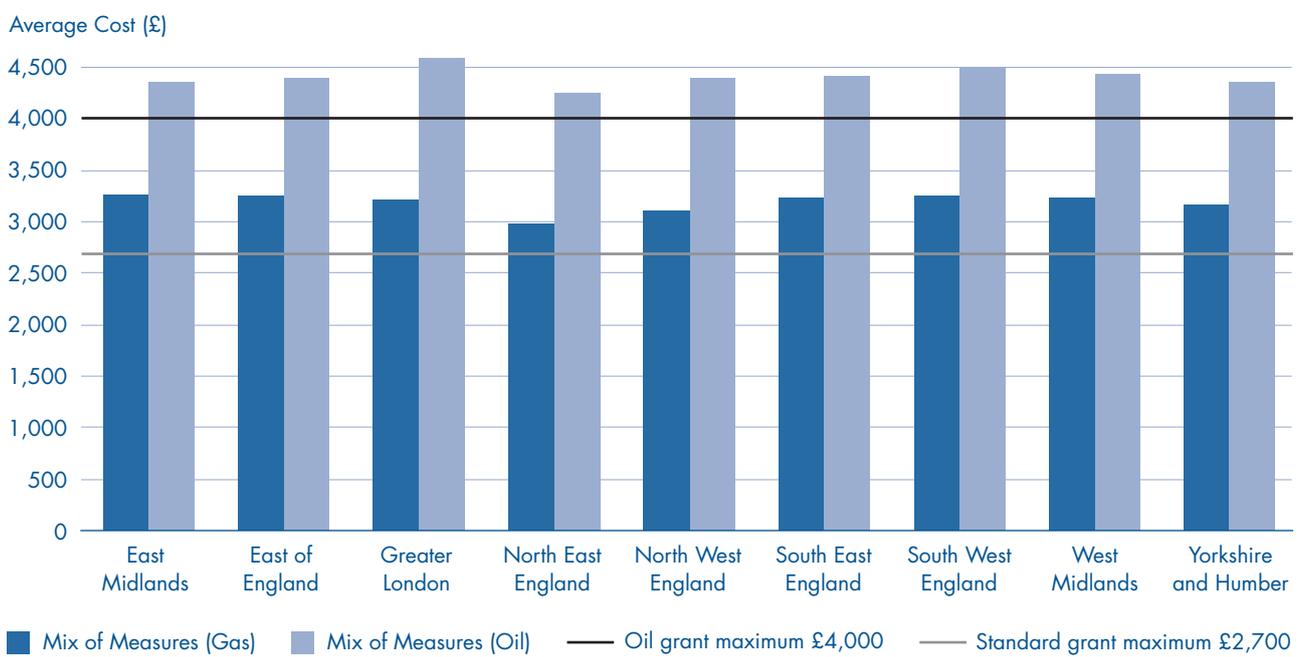
#### NOTE

All figures include VAT. Percentages refer to increase in average price for each measure between 2005-06 to 2007-08.

**3.9** The Department commissioned two reviews into pricing by its Scheme quality assurance assessors, White Young Green. Based on a model three-bedroom house, these reviews compared Scheme pricing schedules and estimated private installer costs for a new gas fired central heating system in July 2007 and, in January 2008 for installing a new oil central heating system and replacing oil and gas fired boilers. These reports, which are summarised in **Figure 13**, concluded that prices charged under the Scheme were good value for money.<sup>17</sup>

**3.10** We commissioned the Building Research Establishment Ltd. (BRE) to model typical costs for seven of the most common jobs funded by the Scheme across a range of household types. **Figure 14**, which summarises BRE's models and compares these with average prices charged by the Scheme in 2007-08, shows that for most jobs, prices charged are very competitive. The average prices under the Scheme for gas and oil boiler replacements are at the higher end of the range, in part because some grant recipients require additional work, such as replacement radiators and cylinders, which is not included in the BRE model.

**12** Average cost of a mix of measures by English region



Source: National Audit Office analysis of data from eaga

**NOTE**

Mix of measures (Gas) include Gas Boiler Replacement, Loft Insulation, Cavity Wall Insulation and two energy saving light bulbs. Mix of measures (Oil) includes Oil Boiler Replacement, Loft Insulation, Cavity Wall Insulation and two energy saving light bulbs.

17 The reports are available at: <http://www.defra.gov.uk/environment/climatechange/uk/household/fuelpoverty/warmfront/vfm.htm>.

**3.11** In mid-2008, the Department commissioned White Young Green to examine the specification of works by installers, and whether measures prescribed are being installed. The Department intend to publish these two reports by mid-2009. In recent months, eaga has strengthened its systems to assess whether jobs are being correctly specified. eaga checks all quotes for work but does not arrange an on site inspection. In 2008, eaga began to pilot a system whereby some quotations for heating work were reviewed to make sure that the amount of work specified was at the appropriate level. Since autumn 2007, inspections now include a random check that materials supplied to the installer have been used on the job, and that all the quoted work has been completed.

### 13 Summary of findings of White Young Green's price review

White Young Green found prices charged under the Scheme were lower than private installers.

|   | Average price based on estimated charges by private installers (£) | Average price based on Scheme pricing schedules (£) |
|---|--|---|
| New gas fired central heating with five radiators | 3,463  | 2,325   |
| New oil fired central heating with six radiators  | 4,790  | 3,951   |
| Like-for-like gas fired boiler replacement        | 1,661  | 1,491   |
| Like-for-like oil fired boiler replacement        | 2,455  | 2,196   |

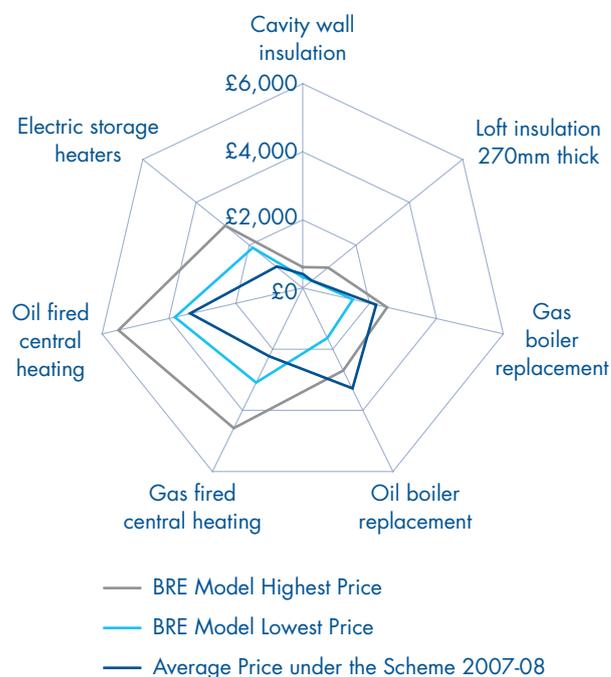
Source: White Young Green

#### NOTE

All prices exclude VAT. Prices based on a model three-bedroom house.

### 14 Cost comparison of BRE pricing models with average costs of jobs funded by the Scheme

Most prices charged under the Scheme are competitive.



Source: Building Research Establishment analysis on behalf of the National Audit Office and National Audit Office analysis of data from eaga

#### NOTE

All figures exclude VAT. The BRE model is based on four dwelling types chosen to represent the target group for the Scheme: two-bedroom mid-terrace house, three-bedroom semi detached house, three-bedroom detached bungalow and two-bedroom low rise top floor flat. The price ranges reflect estimated costs for work on these types of dwelling, adjusted to reflect regional differences in the costs of works.

# PART FOUR

## Contract management

**4.1** When the Department re-let the contract in 2005, it considered alternative options, such as setting up a trust or agency to administer it, or using regional or local delivery models. The Department concluded that continuing with the Scheme manager model would be the most cost effective option and that the operational and financial benefits of a single Scheme manager approach outweighed the risks.

**4.2** The tendering process was subject to four Office of Government Commerce (OGC) Gateway™ Reviews, which raised concerns about the Department's timely access to specialist expertise throughout the process, the tight timescale for the re-tendering and the resources available in the team to deliver the project. The fourth Review in May 2005 focussed on 'readiness for service' and OGC noted that when the contract became operational, the Department's Fuel Poverty Team would need professional support on contract management and legal issues. Whilst a Scheme Management Board,<sup>18</sup> has met quarterly since October 2005 to provide the Scheme with strategic direction, the Department did not allocate a procurement manager to be involved in the day-to-day management of the contract until summer 2007.

**4.3** The Department made three changes to the contract in 2006. The first contract change confirmed that any profits made by the contractor's subsidiary companies, including those involved in installing heating and insulation measures, are excluded from the agreement in the contract for the Department and eaga to share any excessive profits made through the Scheme equally. The second contract change deferred over £2 million in income received by eaga for work in progress on 1 June 2005 from inclusion in the profit share calculation until 2010, and the third contract change revised the fee structure in response to increasing capacity which reflected the increase in government funding.

**4.4** The fourth Gateway™ Review noted concerns relating to a delay in transferring the contracts for supply of heating materials to eaga from the Department, which eaga had proposed in its tender. Under United Kingdom VAT legislation, a reduced rate of VAT of five per cent applies to the labour costs of heating installations funded by schemes such as Warm Front. eaga pointed out that heating materials could also be charged at five per cent VAT, if it, rather than the Department, was party to the contract for their supply. eaga estimated that this could result in savings to the Scheme of £5 to £6 million each year, which equates to potentially 4,000 more households being assisted and fewer households requiring to make a contribution. The Department is investigating whether the transfer of contracts would result in a reduced rate of VAT, but as of November 2008 this issue had yet to be resolved.

**4.5** The Department monitors the contract through a balanced scorecard, which has 43 measures on various aspects of performance. Some targets do not appear particularly challenging. For example, compared to a target of 120 working days, it has taken an average of 64 working days to install a heating measure in 2007-08. In part, the target period is so long because demand outstrips the grant funds available each year, so the Department may have to defer progress on some installations at the year end. Key performance indicators are linked to an incentive and service credit regime. Incentive payments are triggered when targets are exceeded and can be up to five per cent of the total funding available for the administration of the Scheme in any given year. To the end of March 2008, the Department had made incentive payments of £485,000 to eaga. The Department can reclaim sums for substandard performance through service credits of up to ten per cent of the fixed fee paid to eaga. The Department did not enforce the service credit and incentive payment regime until the start of 2007 because of the challenges faced by the Scheme in scaling up installation work in response to the increased government funding.

<sup>18</sup> The Scheme Management Board comprises senior representatives from the Department, eaga, Scheme quality assurance assessors, material suppliers and a fuel poverty charity.

**4.6** In November 2008, the Department commissioned an independent consultant with commercial and legal expertise to examine issues arising from the contract, to make sure that the terms and conditions are understood by both parties, and that ongoing management is robust. The review is expected to be completed by mid-2009.

## Profit share arrangements

**4.7** To minimise the risk of the Scheme manager making excessive profits, the contract includes a profit share arrangement whereby any profits over 11 per cent of costs for each year are shared 50:50 between the Department and eaga. The Department's share of profits is added to the funding available for grants under the Scheme. This arrangement is, however, restricted to profits made by eaga from the fixed management fee, and variable management fees that it receives for marketing the Scheme, networking, call handling, installer management and referral administration (collectively termed Scheme Administration Services), which in 2007-08 totalled over £30 million. It does not include any profits or losses generated by eaga's subsidiaries for other work undertaken in relation to the Scheme, including benefit entitlement checks, initial surveys, installation work and post-installation inspections, for which eaga group received some £95 million income in 2007-08.

**4.8** Between 1 June 2005 and 31 May 2007, eaga retained a total profit of nearly £8 million from the administration of the Scheme. As a result of the profit share arrangement, in the first two years of the Scheme the Department received nearly £1 million and approximately £2 million respectively. A review by the Department began in January 2008 to confirm the underlying data to support the profit calculations and clarify how costs should best be calculated. It found that the profit threshold in 2006 and 2007 had been calculated on 11 per cent of income rather than 11 per cent of costs incurred. eaga paid the Department an additional £652,000 in 2008, including £24,000 interest on the original underpayment.

# APPENDIX ONE

## Methodology

1 This report is based on:

- Data analysis
- Price benchmarking
- Interviews with the Department and eaga
- General file review
- Case file review of customer complaints
- Telephone interviews with grant recipients
- Consultation with external stakeholders
- National and international benchmarking
- Literature review
- Walkthrough and observation

### Data analysis

2 We reviewed and analysed data from the following sources:

#### Grant data from the eaga database

Between April and September 2008, we retrieved data from eaga's grant database and examined the following key areas:

- Time taken to complete key milestones in the application process
- Overall profile of applications and grants, including those for hard to treat and hard to reach households
- The number and profile of instances where the grant maximum was exceeded
- Range of costs for individual measures
- Geographical profile of grants
- Type of work completed by installers and cost

#### eaga customer satisfaction questionnaires

- We analysed over 30,000 questionnaires completed between August 2006 and March 2008 by grant recipients to examine the levels of customer satisfaction and to categorise comments that they made about the service they had received.

English House Condition Survey data obtained from BRE Ltd.

- We commissioned BRE Ltd. in summer 2008 to analyse the English House Condition Survey 2006 to ascertain the match between those eligible for the Scheme and those in fuel poverty. The data set provided precision of +/- three per cent at the 95 per cent confidence level.

#### Price benchmarking exercise

3 We commissioned BRE Ltd. in summer 2008 to carry out a price benchmarking exercise to assess how competitive the prices for insulation and heating work undertaken by the Scheme are. We selected seven of the most common measures, that made up 96 per cent of the value of all work undertaken from June 2005 to March 2008:

- Gas boiler replacement
- Oil boiler replacement
- Gas central heating
- Oil central heating
- Electric storage heating
- Cavity wall insulation
- Loft insulation

Analysis was carried out for four dwelling types, which were chosen to represent the target group for the Warm Front grant. These are specified below:

- Mid terrace house: 2 bedroom, 2 storey
- Semi-detached house: 3 bedroom, 2 storey
- Detached bungalow: 3 bedroom, single storey
- Low rise top floor flat: 2 bedroom

Costs were adjusted depending on Government Office region using location factors to reflect differences in the costs of works by region. Prices were based on average industry costs and supported by published cost data including, amongst other sources, Spon's Architects and

Builders price book, Spon's Mechanical and Electrical Services price book, Laxton's and Wessex price books supported by the BCIS Building Maintenance price book.

## Interviews with the Department

**4** During May and June 2008 we held unstructured interviews with senior personnel, involved in delivering or advising the Department's strategy to tackle fuel poverty. Discussions included strategy, procurement, tendering and contract management.

## Interviews with eaga

**5** Between April and June 2008 we held unstructured interviews with senior staff within eaga. Discussions included marketing, customer care, forward planning, and contract management.

## General file review

**6** Our focus was a detailed review of the contracts between the Department and eaga. We reviewed files to examine strategies, processes, and procedures for managing and administering the Scheme. We also examined relevant Board minutes to assess the strength of delivery partner management. We reviewed the performance reports and internal reviews carried out by Internal Audit and White Young Green, the Scheme's quality assurance assessors.

## Case file review of customer complaints

**7** Between April and June 2008 we undertook a case file review of eaga complaints files to understand the processes in place for handling complaints. We also examined the main reasons for complaints in order to inform our discussions and interviews with eaga. We reviewed 449 complaints files across three financial years (2005-06, 2006-07, and 2007-08) which gave us precision of +/-4.6 per cent at the 95 per cent confidence level. The sample was a random sample selected by eaga under supervision of the National Audit Office.

## Telephone interviews with grant recipients

**8** With support from eaga, we invited 80 customers of the Scheme to take part in telephone interviews about their experiences. Of these, 17 responded and 13 were interviewed (four could not be contacted within the timescales of the study). During May and June 2008 we undertook structured interviews that focused on timescales, installers, and customer contributions. Customers were randomly selected on a regional basis by eaga (under supervision of the National Audit Office) from their database.

## Consultation with stakeholders

**9** During summer 2008, we consulted with representatives of the following organisations, groups and bodies on their views of fuel poverty and the Scheme in particular:

- Age Concern
- Association for the Conservation of Energy
- Citizens Advice Bureau
- Energy Advice Centres
- Energy Savings Trust
- Fuel Poverty Advisory Group
- Help the Aged
- Local authorities
- National Energy Action
- Office of Government Commerce
- Warm Zones cic

We also consulted with the Department for Business, Enterprise and Regulatory Reform (BERR) in its role for tackling fuel poverty.

## National and international benchmarking

**10** We undertook research to compare the Scheme with others operating in the United Kingdom (Appendix 5). With help from our colleagues in international audit offices, we also reviewed how other countries approach fuel poverty. We received background information from Germany, Finland, Canada and USA Government Departments. We also received information about approaches in New Zealand from Community Energy Action Charitable Trust. We found that fuel poverty is generally not a term used internationally. Actions to tackle fuel poverty are often encompassed in wider energy efficiency, environmental or housing improvement activities, making it difficult to compare or benchmark with the Scheme.

## Literature review

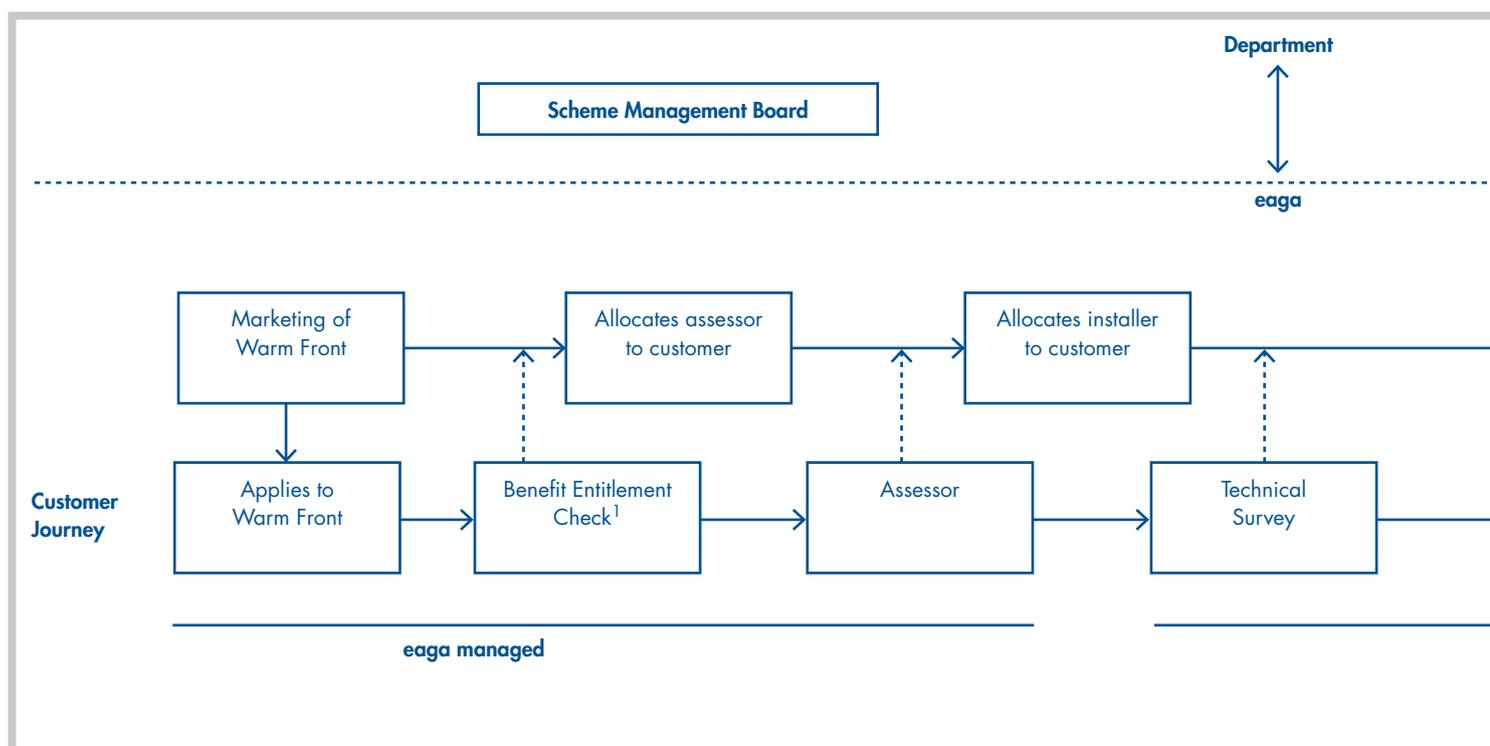
**11** We examined published accounts, annual reports, research, policy papers and existing literature on fuel poverty. The work allowed us to obtain a detailed understanding of developments in fuel poverty since our last report on this subject.

## Walkthrough and observation

**12** In order to understand how the Scheme is delivered in practice, team members undertook a 'walkthrough' in May 2008. This involved listening to calls at the call centre, visiting new customers with an assessor, seeing an installation on site and reviewing completed works with an inspector.

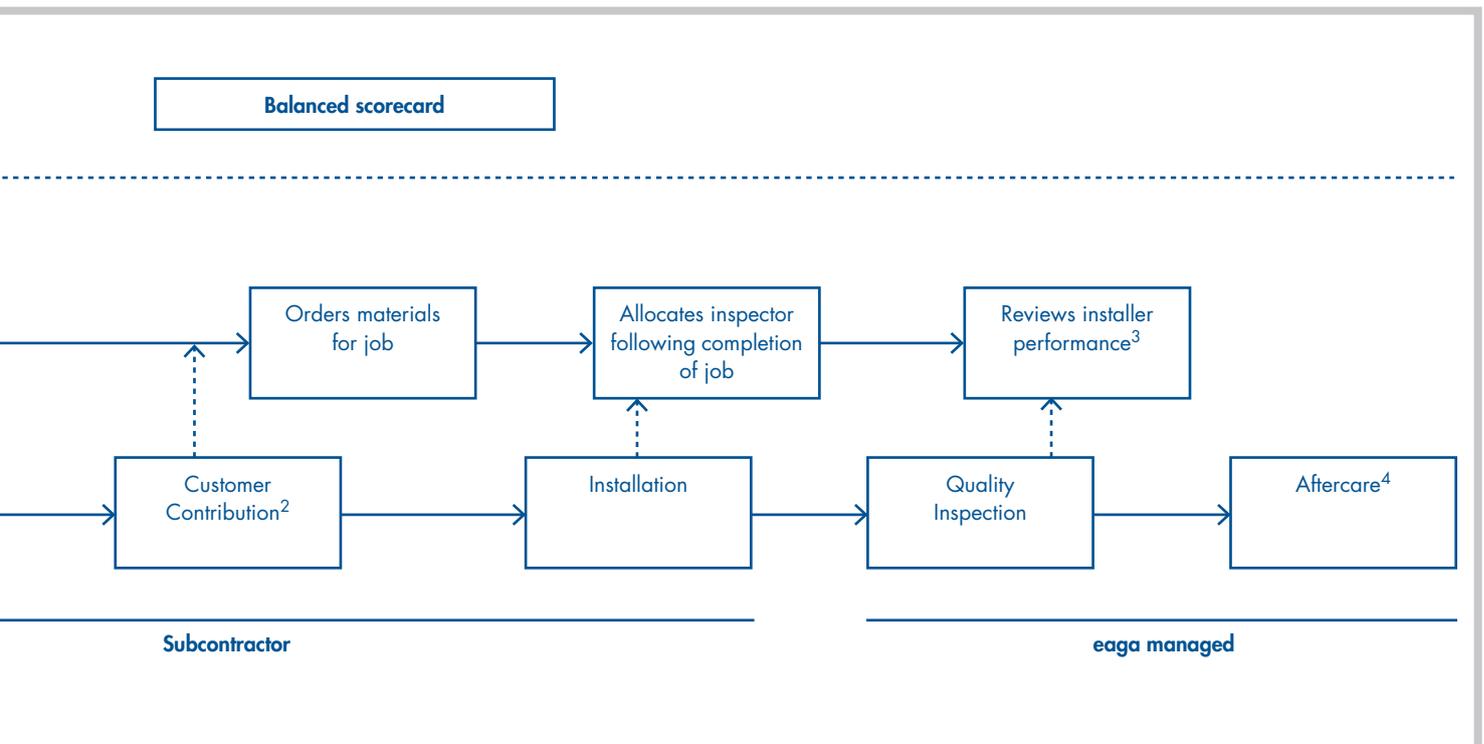
# APPENDIX TWO

## Scheme delivery and interactions



### NOTES

- 1 Benefit Entitlement Check – To maximise the income of applicants the scheme carries out benefit entitlement checks. Applicants are asked a series of questions designed to identify whether they are claiming all the benefits to which they are entitled. In 2007-08 the potential average weekly increase in benefits for clients was £21.71, though there is no means of establishing whether applicants actually claimed the potential increase in income.
- 2 Customer Contribution (where applicable) is paid to the installer prior to work commencing.
- 3 Vendor Rating System – The results of inspections (100 per cent of all heating and five per cent of insulation) feed into a Vendor Rating System, along with length of time to install a measure, and upheld complaints. As the Scheme uses a large subcontractor base, the system allows eaga to monitor the performance of individual installation teams and intervene where necessary. Each subcontractor is rated against others working in the same geographical area and measure. Installers are expected to respond to their Vendor Rating score and make changes to delivery to improve performance. Those who do not improve or show unwillingness to change are not allocated new work and in serious cases may be removed from the installer framework.
- 4 Aftercare – Warm Front aftercare service delivered by WarmSure, a joint venture between eaga and Ideal Boilers.



# APPENDIX THREE

## Previous NAO/PAC recommendations

In 2003, the National Audit Office published a report (HC 769, 2002-03) on the Warm Front Scheme. The Committee of Public Accounts took evidence from the Department for Environment, Food and Rural Affairs and published its own report (5th Report of 2003-04, HC 206). The table below sets out the recommendations made by the Committee and the response of the Department.

### PAC Recommendation

Much of the public funding of £150 million for Warm Front annually does not help those most in need. To improve the Scheme's effectiveness, the Department should establish eligibility criteria which best identify low income groups, for example those on means-tested benefits.

The Scheme needs to reach more of those in fuel poverty where real needs exist, and practical help can be given. The Department should consider whether a proportion of current Scheme funding could be ring fenced to a discretionary fund through which the most fuel poor could be prioritised, assisted quickly and with sufficient measures to make a real difference.

Benefit health checks, visits and local networks such as doctors' surgeries and shops may provide a better way of identifying those most in need of assistance and helping them apply for a grant. The Department is using these approaches in some areas and should extend them if they prove effective in addressing fuel poverty, particularly for those living in rural communities who may be harder to reach.

The Department currently has no eligibility criteria reflecting the energy efficiency of the home. It should concentrate on resources on homes with low energy efficiency but which can be significantly improved to reduce occupiers' fuel costs.

Eight per cent of all grants have been for two energy efficient light bulbs only, and twenty per cent of all jobs have resulted in light bulbs or draught proofing only. The Department should reduce expenditure on measures which have limited impact on fuel costs, and on homes which are already energy efficient, and use the money saved to help those households most in need.

### Response

Changes have been made to the eligibility criteria to help target households most likely to suffer from fuel poverty, including:

- Pension Credit was added to the criteria in October 2003; and
- An income cut off point (currently £15,460) has been set for Working Tax Credit and Child Tax Credit recipients to help focus on households most likely to be vulnerable.
- The Department piloted 'fast tracking' of some applicants and concluded that it was not practicable for wider rollout.
- The Department hoped to achieve the aims of this recommendation through the contractual arrangements for the Scheme, without the need to ring fence a discretionary fund.
- eaga have set up a team of Networkers to develop relationships with a broad range of organisations and community groups to reach those most vulnerable to fuel poverty.
- Any householder who applies to the Scheme who may not be claiming benefit to which they are entitled are referred to a benefit entitlement check (a service that began in 1997). In May 2007 the Government announced that checks would be offered to all applicants.
- In 2007-08 18,500 such checks were carried out, with 30 per cent of householders subsequently being eligible for Warm Front.
- Eligibility criteria remain based on benefits entitlement.
- Grants continue to be awarded to all eligible householders regardless of the existing energy efficiency of their property.
- Since June 2005, 24 per cent of assisted households have received only minimal measures, such as two energy efficient light bulbs, draught proofing and hot water tank jackets.

**PAC Recommendation *continued***

Some Scheme rules result in poor value for money by requiring installation of more expensive and less efficient options for some claimants than alternative solutions available. The Department should remove the requirement for like for like replacements, and create more flexibility within the Scheme rules to provide assistance where systems are in a poor and potentially dangerous condition but still operate.

The Scheme offers few practical options for hard to treat homes such as those off the gas network or with solid walls. The Department should undertake research to develop new solutions for hard to treat homes, and the Scheme rules should recognise that some potential claimants in such homes may need additional financial assistance, perhaps through a discretionary fund. Scheme managers should be set objectives to increase assistance in this sector.

Delays in installing measures under the Warm Front Scheme continue to occur with over 50 per cent of all jobs exceeding target times. The Department should work with Scheme managers and suppliers to prioritise those cases most likely to benefit, for example homes where the agreed measures will significantly improve home energy efficiency with a resultant reduction in fuel costs (or provide better comfort at the same or similar cost).

The Department's Public Service Agreement (PSA) target measures success in terms of the numbers of households assisted regardless of whether the assistance has had any significant impact on energy efficiency and on the occupier's fuel costs. The Department and the Treasury should revise the target to better measure the impact of the Scheme in reducing fuel poverty and on the fuel efficiency of the homes assisted. The Department's targets for Scheme managers should similarly provide greater incentive to Scheme managers to identify and help those most in need.

The Department should also seek to assess the wider impact of the Warm Front Scheme by researching whether the Scheme is moving people out of fuel poverty. Such an exercise should inform the planned Scheme redesign in 2005, and in particular identify whether the Scheme will contribute fully to achieving the aim of eliminating fuel poverty in vulnerable groups by 2010.

**Response *continued***

- Revised procedures have been introduced allowing eaga flexibility to make a judgement on the most appropriate replacement boiler dependent on the situation encountered, within an established set of parameters.
- Replacement will only be offered if the repair is not the most cost effective option in the individual case.
- A repair is offered where the system is inoperable at the time of assessment.
- The Scheme monitors grants awarded to four categories of hard to treat households: ones with solid walls; ones built before 1929; ones off the gas network; and ones with no loft space. Of the 637,000 households assisted since June 2005, 390,000 (61 per cent) were in one or more of these categories.
- In the Treasury Minute the Department stated it was looking at widening the range of measures offered to hard to treat homes. For example, oil central heating is now provided for properties away from the gas network. Since June 2005, the Scheme has installed 1,400 new oil central heating systems, and has replaced boilers for oil systems in a further 2,000 households.
- The target times from survey to completion of the work are 40 working days for insulation measures and 120 working days for heating measures. In 2007-08 87 per cent of insulation jobs and 91 per cent of heating measures were completed within target.
- Since June 2005, heating installations have taken, on average, 71 working days to complete and insulation jobs 30 working days.
- Jobs continue to be undertaken on a first-come-first-serve basis.
- Between 2005 and 2007, the Department's Public Service Agreement target 7 was: 'Eliminate fuel poverty in vulnerable households in England by 2010 in line with the Government's Fuel Poverty Strategy Objective'.
- In the new PSA and Comprehensive Spending Review target framework fuel, poverty is no longer a PSA target nor a Departmental Strategic Objective for the Department or BERR, but is one of a large number of performance indicators for both Departments.
- As part of the Department's monitoring of eaga's performance the latter has a target, linked to an incentive payment, of providing at least 65 per cent of assisted households with measures to take them above a SAP rating of 65. Since June 2005, eaga has not hit this target.
- In 2007-08 there was an average improvement in the SAP rating of assisted households from 42 to 57.
- The latest Departmental performance report acknowledges 'slippage' against the 2010 target.
- The Sixth Annual Report of the Fuel Poverty Advisory Group concludes that Government 'appear to have given up on the legally binding 2010 Fuel Poverty Target'.

# APPENDIX FOUR

## Stakeholder and grant recipient views

**1** We sought the views of a range of stakeholders during the study, including Age Concern, the Citizens Advice Bureau and National Energy Action (see Appendix 1). The general view was that the Scheme was worthwhile and made a difference to recipients. This was supported by our discussions with grant recipients who appreciated the assistance and had recommended the Scheme to others (see Figures 15 and 16).

**2** Where stakeholders had raised concerns, these were largely around the number of quotations that exceeded the grant maximum and the subsequent difficulties for recipients faced with trying to contribute to the costs of work, as illustrated by the experience of a customer (Figure 17).

### 15 Positive views of Scheme customers

|                                    |   |  |
|------------------------------------|---|--|
| <b>Applying to Warm Front</b>      | <i>"They went to a lot of trouble to help me",<br/>Mrs. S, Tyneside</i>   | <i>"It is very helpful to people not confident in form filling",<br/>Mrs. H, Derbyshire</i>  |
| <b>Installation</b>                | <i>"They gave me a voucher to go and buy a temporary heater until my system was installed. They won't let you go cold.",<br/>Mr. P, Norfolk</i> | <i>"Everyone involved in Warm Front was polite and friendly",<br/>Mrs. S, Dorset</i>         |
| <b>Without Warm Front</b>          | <i>"We wouldn't have been able to afford it otherwise",<br/>Mrs. L, Lancashire</i>  | <i>"Fantastic service, don't know what I would have done without it",<br/>Mrs. A, Sussex</i> |
| <b>Encouraging others to apply</b> | <i>"I absolutely recommend it to others",<br/>Mr. P, Devon</i>  | <i>"It's a pity more people don't know about it",<br/>Mr. W, Devon</i>                       |

Source: National Audit Office, customer telephone interviews

## 16 Positive experience of a Scheme customer

Mr. W is 84 years old and registered disabled. In 2007, Mr. W realised his boiler was not working adequately. He contacted Warm Front to see if they could help, having known he had used some of his grant on loft insulation under Warm Front previously. The assessor came along and said they could replace the boiler and it would all be covered by the remaining grant amount. Mr. W did not have to pay anything towards the cost of his new boiler. Installers arrived on time, completed the job well and he has had no problems at all. An inspector came shortly after installation and found no faults.

He is "extremely pleased" with the whole Warm Front process. The installers were "very neat, cleaned up after themselves and were meticulous in their work". He has recommended Warm Front to others, and will do so in the future. He describes it as "a wonderful scheme".

*Source: National Audit Office, customer telephone interviews*

## 17 Customer who experienced difficulty in paying a contribution

Ms. M cares for a woman (Ms. A), who has learning difficulties and lives alone. Ms. M applied to Warm Front on Ms. A's behalf and found she was eligible for a Warm Front grant of £4,000 for oil central heating.

The cost of the works quoted by Warm Front was almost £1,000 over the grant maximum and Ms. A was requested to pay the excess before any work could start. As Ms. A does not have any savings, Ms. M and a friend paid the amount for Ms. A so that she did not have to go without heating any longer. Ms. A is now paying back the £1,000 loan to Ms. M and her friend. Ms. M feels that without the support of her carers, Ms. A would still be without a functioning boiler.

*Source: National Audit Office, customer telephone interviews*

Other concerns expressed by stakeholders were the length of time customers had to wait before work was completed and the cost and quality of work carried out by installers, as illustrated by the experience of a customer in **Figure 18**.

## 18 Customer who experienced delays and had concerns about quality of work

Mrs. A is a single parent with two small children. She had cavity wall insulation fitted under the previous Warm Front scheme and a boiler replacement under the current Scheme. She was without heating for one month before applying to Warm Front.

She found the application process was easy and the assessor agreed that she needed a new boiler installed. The cost of the work was more than the available grant but her local authority paid this excess for her. She waited several months for installation of the new boiler.

After the installation, the installers left live electrics exposed in the kitchen and refused to make good holes left in the wall. She felt they were only doing the minimum needed for the job, installing pipes in the middle of walls (she had to ask them to change the location, so she could box them in).

However, she is grateful for the support from the Scheme, "I certainly couldn't have afforded it without Warm Front."

*Source: National Audit Office, customer telephone interviews*

# APPENDIX FIVE

## National benchmarking of other schemes

|              | <b>England</b>                           | <b>Wales</b>  | <b>Scotland</b>                               |   | <b>Northern Ireland</b>                                   |
|--------------|--|---|---|---|---|
| Name         | Warm Front                               | Home Energy Efficiency Scheme                                     | Warm Deal                                     | Central Heating Scheme  | Warm Homes  |
| Delivery     | eaga                                     | eaga  | Scottish Gas                                  | Scottish Gas  | eaga  |
| Grant amount | £2,700<br>£4,000 for oil central heating | £2,000<br>£3,600 if disabled or over 60<br>£5,000 for oil heating | £500<br><br>£125 for over 60s not on benefits | All over 60's with no heating – £3,500<br><br>With partial heating and on pension credit, or over 80 – £3,500<br><br>Up to £5,500 (if lowest cost is more than £3,500)<br><br>Safety alarms | £850 (insulation only)<br>£4,300 (heating and insulation) |

|                               | <b>England</b>  | <b>Wales</b>  | <b>Scotland</b>  |   | <b>Northern Ireland</b>  |
|-------------------------------|---|---|--|---|--|
| Name                          | Warm Front  | Home Energy Efficiency Scheme   | Warm Deal  | Central Heating Scheme  | Warm Homes   |
| Eligibility                   | <p>Householders on disability benefits</p> <p>Over 60's on specific benefits</p> <p>Pregnant (or with young child) on specific benefits</p> <p>£300 heating rebate scheme for non eligible over 60s</p> | <p>Over 80s – £3,600</p> <p>Over 60s and lone parent families on specific benefits – £3,600</p> <p>Pregnant (or with young child) on specific benefits – £2,000</p> <p>£500 heating rebate scheme for non eligible over 60s</p> | <p>Households with disabled children on Disability Living Allowance – £500</p> <p>Over 60 on specific benefits – £500</p> <p>Over 60s not on benefits – £125 maximum</p> | <p>Aged 60 or over without central heating</p> <p>Aged over 75 with a broken central heating system</p> <p>Broken, partial or inefficient heating system and receiving guaranteed element of Pension Credit</p> <p>Aged 80 or over and have a broken, partial or inefficient heating system</p> | <p>Anyone with a child under 16 on specific benefits (insulation only)</p> <p>Anyone over 60 on specific benefits (heating and insulation)</p> <p>Anyone on specific disability benefits (insulation only)</p> |
| Measures                      | <p>Heating and/or insulation</p> <p>Energy efficient light bulbs</p>  | <p>Heating and/or insulation</p> <p>Energy efficient light bulbs</p>  | <p>Insulation only</p> <p>Energy efficient light bulbs</p>   | <p>Heating and/or insulation</p> <p>Carbon monoxide, smoke and cold detectors</p>   | <p>Insulation only</p> <p>Over 60's both heating and insulation</p> <p>Reflective radiator panels for solid walls</p> <p>Energy efficient light bulbs</p>  |
| Source: National Audit Office |   |   |  |   |  |