

# Warm Front: Helping to Combat Fuel Poverty



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
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# executive summary

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- 1 Warm Front is a scheme which aims to reduce fuel poverty in vulnerable households in England by improving the energy efficiency of their homes<sup>1</sup>. There were an estimated 1.8 million<sup>2</sup> households in fuel poverty in England in 2001<sup>3</sup>. Fuel poverty damages people's quality of life and health, with more illnesses such as influenza, heart disease, and strokes as well as increased risk of death in winter. The Scheme is aimed at those groups most vulnerable to fuel poverty: households with children, the over 60s and the disabled or long-term sick. The Scheme is a major component of the government's UK Fuel Poverty Strategy, published in November 2001, which aims to eliminate fuel poverty in England by 2016, and to eliminate it in vulnerable groups by 2010 as far as reasonably practicable.
- 2 The Scheme, which costs on average £150 million a year, provides grants for insulation and heating to homes in the owner occupier and private rented sector - fuel poverty in social housing is now addressed through other programmes<sup>4</sup>. Warm Front replaced the former Home Energy Efficiency Scheme in June 2000. The Scheme is overseen and funded by the Department for Environment, Food and Rural Affairs (the Department), and it is administered by two Scheme managers, Eaga Partnership Ltd and TXU Warm Front Ltd<sup>5</sup>. Similar schemes operate in Scotland, Wales and Northern Ireland overseen by the devolved administrations.

## Key findings

- 3 Warm Front makes a difference in many cases; 303,000 households were assisted in 2002, receiving, on average, a grant of £445 which has the potential to save each household around £150 a year through reductions in fuel bills. However, there are some important ways in which the Scheme's effectiveness is impaired:
  - There are problems with the match between eligibility for the Scheme and fuel poverty; around a third of the fuel poor may be ineligible and up to two thirds of eligible households may not be fuel poor;
  - The heating and insulation measures available under the Scheme may be insufficient to move households out of fuel poverty in at least 20 per cent of cases, possibly more; and
  - Only 14 per cent of grants reached the least energy efficient homes and there is limited targeting of grants towards those households in greatest need.

As a result of these problems, the Scheme may make less of a contribution to the Fuel Poverty Strategy's aim of eliminating fuel poverty than it could.

1 A fuel poor household is one which needs to spend more than 10 per cent of its income on fuel costs to heat its home to an adequate standard of warmth, generally defined as 21°C in the living room and 18°C in other occupied rooms.

2 1.8 million is the number of fuel poor households in England, as quoted in the first annual progress report on the UK Fuel Poverty Strategy, published in March 2003 and based on the English House Condition Survey 2001. The figures from this survey are currently undergoing further refinement and could be subject to change.

3 English House Condition Survey 2001 using the definition of income which includes Housing Benefit and Income Support for mortgage interest (ISMI) which is used throughout this report.

4 For example the Decent Homes Standard (2001) and the Energy Efficiency Commitment.

5 Powergen acquired the TXU retail business, including Warm Front Limited, in December 2002. However, for the purposes of this report we have referred to this Scheme manager as TXU Warm Front Limited as the manager in charge for the majority of the period under review.

- 4 In part, these areas for improvement have their origins in the Scheme's history and development<sup>6</sup>. The Scheme's predecessor, the original Home Energy Efficiency Scheme, was not initially designed to alleviate fuel poverty but to improve household energy efficiency. Even the new Scheme, launched in June 2000 and rebranded as Warm Front in February 2001, was in place well before the launch of the Fuel Poverty Strategy in November 2001. Warm Front was brought within the Strategy, rather than specifically designed to address fuel poverty and the Strategy's aims. The Department is, however, in the process of reviewing Warm Front to ensure that it makes an effective contribution to the Strategy. The rest of this Summary sets out our findings in more detail, and makes recommendations.

## Detailed findings

- 5 **Warm Front has the potential to do much good.** The Scheme is a better means to tackle fuel poverty than the Home Energy Efficiency Scheme it replaced. More funds are available, the eligibility criteria are more suited to identifying fuel poor households in the target vulnerable groups, and the wider range of insulation and heating measures is better able to address warmth, comfort and energy efficiency in fuel poor homes. The Scheme is very popular with those who benefit from it, with a high level of customer satisfaction and low level of complaints, and it has the potential to make a real difference to these households.
- 6 **Current targets and performance measures do not provide a clear or meaningful view of progress against the Fuel Poverty Strategy.** The Fuel Poverty Strategy contains the target that "800,000 vulnerable households would be assisted through the Scheme by 2004" and this is translated into a Public Service Agreement (PSA) target "to reduce fuel poverty among vulnerable households by improving the energy efficiency of 600,000 homes between 2001 and 2004". Neither target is sufficiently linked to the Strategy's aim to eradicate fuel poverty as far as reasonably practicable. In particular, it is inappropriate to use the number of households assisted by the Scheme as a prime measure of success. This approach presumes that all households assisted were fuel poor at the start, and assumes that the assistance provided leads to improvements in energy efficiency, with the potential to reduce fuel poverty. In practice, these presumptions may not apply in all cases. The fuel poor are a dynamic group with new households becoming fuel poor each year, and eliminating fuel poverty is an ongoing task.
- 7 Ideally the impact of the Scheme would be measured in terms of the reduction in fuel poverty achieved. The Department, however, does not assess the impact of Warm Front in this way and so instead we have used improvements in the energy efficiency of recipients' homes as a proxy for the likely impact of the Scheme in moving households out of fuel poverty.
- 8 **Eligibility does not correspond to fuel poverty in many cases.** Warm Front is a scheme aimed at helping the vulnerable fuel poor. Assessing directly whether a household is fuel poor would be time consuming and complicated, and therefore receipt of 'passport benefits' is used as a proxy for fuel poverty and to determine eligibility. These benefits, which include for example Income Support, Housing Benefit and Disability Living Allowance, are chosen on the basis that they identify those either on low incomes or in one of the vulnerable groups (families with children, over 60s, and the disabled). The suitability of passport benefits as a proxy for fuel poverty has not been tested systematically, but some



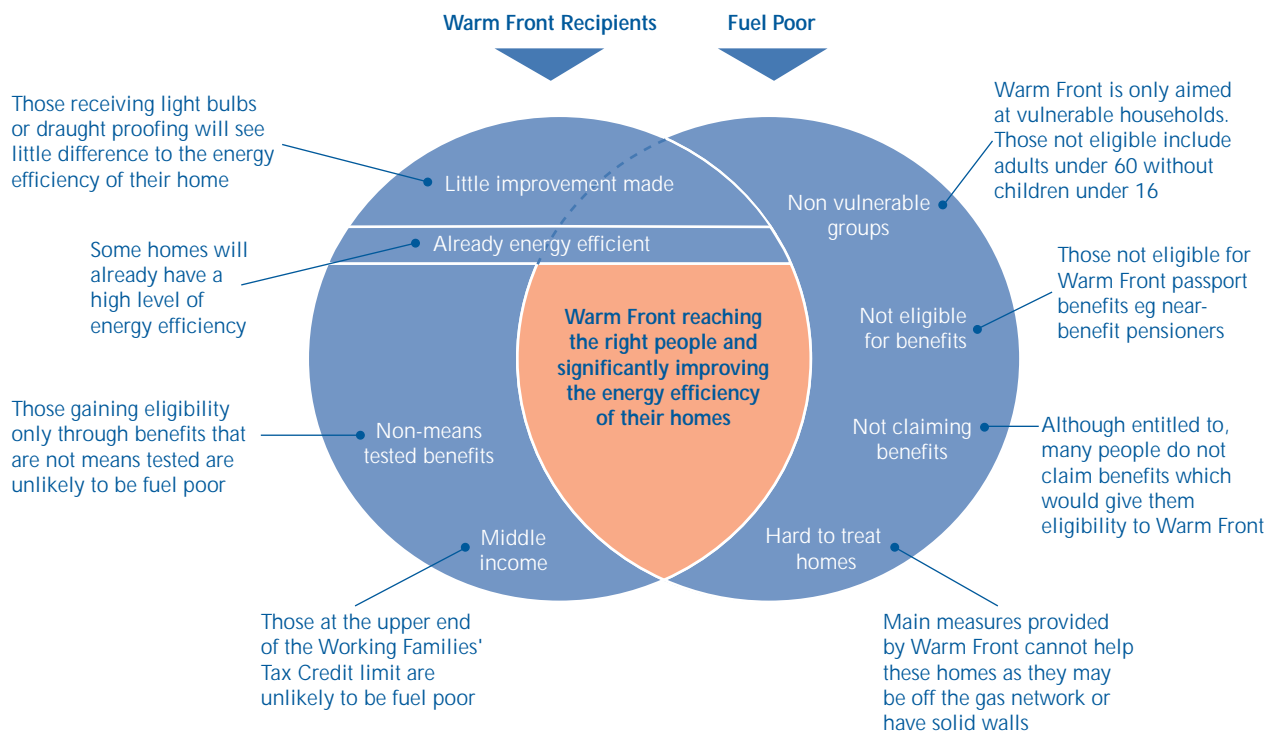
limited exercises suggest that there may be significant numbers of fuel poor (perhaps 35-40 per cent) in these vulnerable groups who are not eligible for Warm Front because they are not claiming benefit or are not entitled to the relevant benefits. Similarly, recent work commissioned by the Scheme managers combined with other data indicates that between 40 and 70 per cent of households eligible for Warm Front may not be fuel poor, because they have a reasonable level of income or live in a home which is already energy efficient.

- 9 In particular, some passport benefits appear to be less good indicators of fuel poverty than others. The Working Families' Tax Credit extended to middle income families, some of whom may not have been fuel poor. The changes in working tax credits in 2003 provided an opportunity to examine the suitability of the replacement credits as passport benefits, and the Department has now limited eligibility to those recipients of these tax credits on an annual income of less than £14,200. Disability Living Allowance is not means tested, and in the absence of any other passport benefit may not be a good indicator of fuel poverty.
- 10 Amongst the fuel poor not eligible for Warm Front are 'near-benefit' households, households not claiming benefits to which they are entitled, and the 'non vulnerable' fuel poor, for example households with adults aged under 60 with no children. Although some of these people are outside the scope of the current Warm Front scheme, the Department's aim of eliminating fuel poverty by 2016 may not be achievable while these ineligible groups remain, as the Strategy acknowledges. Benefits health checks are a way of helping more people to receive passport benefits and qualify for Warm Front by assisting people in understanding their entitlements to benefits.
- 11 **The range of measures offered does not always maximise impact.** The increased grants and wider range of measures under Warm Front are a considerable improvement over the previous Scheme. Generally all energy efficiency and heating measures that can be afforded within the grant maxima will be installed, unless they are already present in the home. This approach helps many homes, but does not have a significant impact on energy efficiency, and hence fuel costs, in others. For example, homes that receive only energy efficient light bulbs or draught proofing (20 per cent of all homes assisted in 2001-02) will only see a decrease in fuel costs of, at most, £25 a year.
- 12 A significant number of fuel poor households live in homes that are 'hard to treat', usually because they are not connected to mains gas (around 25 per cent of the fuel poor) or have a solid wall that cannot be cavity-filled (44 per cent of fuel poor homes), but Warm Front provides few or no effective options for homes of this type. In other cases the required energy efficiency measures may cost more than the grant maximum and, if the customer is unable to contribute funds or funding from other sources cannot be secured, choices must be made which may result in a less than ideal solution being implemented. For other homes the assistance needed falls outside the Scheme rules. For example, the repair of an intermittently working boiler or the replacement of a warm air heating system with a gas central heating one are not permitted under the Scheme.
- 13 **Grants are not targeted towards the most fuel poor or the least energy efficient homes.** Eligibility for Warm Front is based solely on receipt of passport benefits with no account being taken of the energy efficiency of the claimant's home. Applications are processed on a first come, first served basis, and the only targeting is a Departmental requirement that around 60 per cent of grants go to households aged over 60. More could be done to meet this target.

14 The Scheme may not be reaching those in greatest need and may under represent certain groups of fuel poor. Under current Scheme rules, for example, grants may be allocated to homes with high energy efficiency even though people in these homes are less likely to be fuel poor. In 2001-02, 14 per cent of grants reached the least energy efficient homes<sup>7</sup>. More targeting of grants to those homes with the lowest energy efficiency would improve the cost effectiveness of the Scheme, because these homes offer the largest scope for improvements and energy savings. In addition, grants and assistance to fuel poor in rural areas have been less common, with most help going to those living in urban areas because these areas generate applications more easily.

**Several factors reduce the Scheme's effectiveness**

*A limited proportion of Warm Front grants may reach the fuel poor and make a significant impact to the energy efficiency of their homes.*



<sup>7</sup> Denoted as a SAP rating of less than 20. A Standard Assessment Procedure (SAP 1998) gives homes a rating from 1 to 100, with 1 being a house with very poor energy efficiency and 100 being a highly energy efficient house.



# Recommendations

- 15 The factors set out above which reduce the Scheme's effectiveness mean that a limited proportion of Warm Front grants may reach the fuel poor *and* make a significant impact to the energy efficiency of their homes, as shown in the figure on the page opposite.
- 16 As a result, Warm Front may be making less of a contribution than it could to the Strategy's aims. As part of their current review, the Department should therefore look at the fit between the Scheme and the Strategy, and examine whether the Strategy's aims are going to be met. More specifically the Scheme could be better directed towards the fuel poor by tightening eligibility and, in particular by taking account of a home's energy efficiency. In this way the funds available under the Scheme could be better utilised to help those who will benefit most in terms of reducing fuel poverty. Our recommendations are:
- 1 **Targets for the Scheme.** These should be framed around the average improvement in energy efficiency of households assisted, as well as the number of homes assisted, as a proxy for the impact on underlying fuel poverty. Reporting against the target should include only homes where a real reduction in energy costs has been achieved, helping to move households out of fuel poverty.
  - 2 **Impact of Warm Front.** Currently the Department has only limited data about the impact which Warm Front has on the actual fuel costs of the households helped. To better inform Scheme design, and assess whether the Strategy's aim of eliminating fuel poverty is being achieved, the Department should research whether Warm Front has moved assisted households out of fuel poverty.
  - 3 **Eligibility and coverage.** Currently some of the benefits used to determine people's entitlement to Warm Front are not focusing help on those most likely to be in fuel poverty. The Department should review the effectiveness of the Scheme's eligibility provisions, to identify the extent to which they may exclude the vulnerable fuel poor, and the extent to which they may direct funds to those who are not fuel poor. The Department should consider concentrating eligibility only in those groups on low incomes as shown by receipt of means tested benefits.
  - 4 **Maximising improvements to energy efficiency.** The Department should consider how to concentrate its resources in those eligible homes with the lowest energy efficiency where the most cost effective improvements can be made. This could take the form of guidance to Scheme managers and surveyors rather than new rules that seek to prescribe for all individual circumstances. By reducing expenditure on measures which have limited impact on fuel costs, and by reducing expenditure on homes which are already energy efficient, more could be done to help those households most in need.

More detailed recommendations are at Appendix 1.