

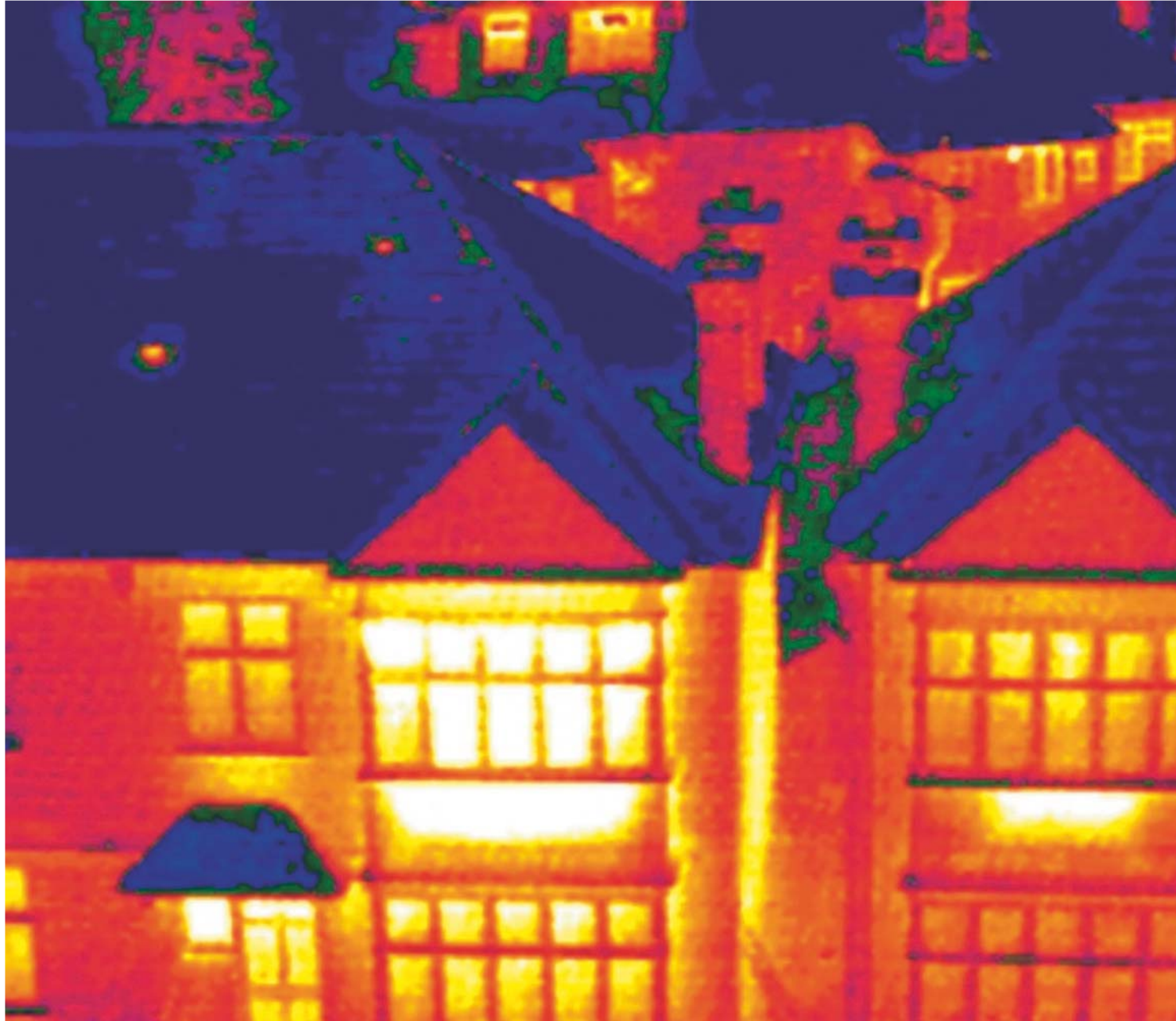


National Audit Office

The Warm Front Scheme

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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.