



National Audit Office

**MEMORANDUM FOR THE
HOUSE OF COMMONS
ENERGY AND CLIMATE
CHANGE COMMITTEE
FEBRUARY 2010**

Energy and Climate Change Committee inquiry into Fuel Poverty

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Introduction

1 This memorandum has been prepared by the National Audit Office (NAO) to help inform the House of Commons Energy and Climate Change Committee's inquiry into fuel poverty. It draws together findings from our previous work that we consider relevant to the Committee's inquiry.

Fuel poverty policy and measures

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. The UK Fuel Poverty Strategy, issued in November 2001, established supporting targets to eradicate fuel poverty across England, as far as reasonably practicable, in vulnerable households by 2010 and in all households by 2016. The Department of Energy and Climate Change is responsible for achieving these targets.

3 We have produced three reports on programmes and measures relevant to tackling fuel poverty: the Decent Homes Programme 2010¹; the Warm Front Scheme in 2009²; and programmes to reduce energy consumption in 2008³. Below we summarise our examination of these measures that are relevant to:

- progress against Government targets;
- the coherence of the Government's initiatives on energy efficiency;
- the methods used to target assistance at households which need it most; and
- support for households which are not connected to the mains gas grid.

Progress Against Government Targets

4 The main causes of fuel poverty are low income, high energy prices, and poor housing stock that reduces energy efficiency. The Government has established a range of policies and programmes to address these causes, with each programme having its own targets.

The Warm Front Scheme

5 The Warm Front Scheme, launched in 2000, is a key programme of the Department of Energy and Climate Change to tackle fuel poverty in England. It provides grants to improve household energy efficiency for people in fuel poverty, defined as households that need to spend more than ten per cent of their 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.

¹ Comptroller and Auditor General's report *The Decent Home Programme*, HC 212, Session 2009-2010.

² Comptroller and Auditor General's report *The Warm Front Scheme*, HC 126, Session 2008-2009.

³ Comptroller and Auditor General's report *Programmes to reduce household energy consumption*, HC 787, Session 2007-2008.

6 The NAO has reported twice on this Scheme.⁴ In our latest report in 2009, we found the Scheme had assisted over 635,000 households between June 2005 and March 2008 and that the installation of central heating systems and insulation in homes had helped vulnerable people. Our report found, however, that there were still 1.9 million vulnerable households living in fuel poverty in private accommodation as at 2006. Our analysis of the 2006 English House Condition Survey indicated the Scheme is only available to approximately 43 per cent of vulnerable households (classified as families with children, the elderly or occupants in long-term ill health) in fuel poverty, and 35 per cent of all households in fuel poverty.

7 The Scheme has had particular difficulty in helping people out of fuel poverty who live in hard to treat homes. For example, 43 per cent of households identified as fuel poor in 2005 lived in solid wall properties. Treating these households is difficult and expensive, and some measures delivered under the Scheme, such as cavity wall insulation, are not appropriate for these type of properties.

8 The company contracted to deliver Warm Front, eaga plc, has sought to improve its service to hard to reach groups by developing relationships with a wide range of organisations. This has increased the take up of grants amongst some groups. For example, between June 2005 and March 2008, 17 per cent of assisted households were from black and minority ethnic groups, but this group made up only eight per cent of vulnerable households in fuel poverty in 2006. However, some other hard to reach groups are not benefiting to the same extent. Rural households, for example, made up 28 per cent of vulnerable fuel poor households in 2006, but only 15 per cent of households receiving assistance 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.

The Decent Homes Programme

9 The Decent Homes Programme was launched in 2000 by the Department for Communities and Local Government to improve the condition of homes for social housing tenants and vulnerable households in non-decent private sector accommodation. It aims to improve insulation and heating, and provide modern facilities, through setting policy and exercising oversight of local authorities and Registered Social Landlords. It also seeks to encourage compliance by social landlords with standards relating directly to fuel poverty. The Programme established the Decent Home Standard (the Standard) as a minimum threshold below which no property should fall. The Standard aims to make homes warm, wind- and weather-tight, and with reasonably modern facilities and a reasonable degree of thermal comfort with efficient heating and effective insulation.

10 In 2000, the Department set a target for all social housing managed by local authorities and Registered Social Landlords to be decent by 2010. In 2002, it set a second target for increasing the proportion of vulnerable households in private sector accommodation who lived in decent homes to 70 per cent by 2010, and 75 per cent by 2020.

⁴ Comptroller and Auditor General's report *Warm Front: Helping to Combat Fuel Poverty*, HC 769, Session 2002-03 and Comptroller and Auditor General's report *The Warm Front Scheme*, HC 126, Session 2008-2009.

11 The NAO found that as at April 2009, 86 per cent of homes in the social sector were classed as decent compared to 39 per cent in April 2001, with the number of non-decent social households having fallen approximately 1.1 million during the period. However, the original target was that all social sector homes would be decent by 2010. The Department estimates that 92 per cent of social housing will meet the standard by 2010, leaving 305,000 properties 'non-decent'. It estimates that 100 per cent decency will not be achieved until 2018-19, eight years later than planned.

12 The Department had made progress in improving private accommodation, with 68 per cent of vulnerable households in private sector accommodation living in decent homes as at April 2006, compared to 57 per cent in 2001. The introduction of the more demanding Housing Health and Safety Rating System in 2006, however, reduced the number of households in decent homes from 68 per cent to 61 per cent in April 2007. The energy efficiency of private sector accommodation has increased at a slower rate than in social housing stock.

Energy Efficiency

13 The Government has a target to improve residential energy efficiency in England by at least 20 per cent by 2010, from a year 2000 baseline. The NAO found that from 2000 to 2004, the latest year for which information was available at the time of our 2008 report, the rate of improvement in energy efficiency was 1.5 per cent per year, and if the trend continued at the same rate per year, by 2010 an improvement of around 15 per cent would be achieved. We assessed that energy efficiency improvements of around 2.4 per cent per year were required from 2004 onwards to reach the target.

14 The Department of Energy and Climate Change has targets for energy suppliers to promote energy efficiency measures to householders including insulation, low energy light-bulbs and high-efficiency appliances and boilers. It aims to achieve these by placing obligations on suppliers which require them to promote household energy efficiency measures to consumers. Suppliers can choose what mix of measures they promote. Suppliers meet the costs, but can recover some or all of them from customers. The current version of this obligation on suppliers is the Carbon Emissions Reduction Target (CERT), which has been in place since 2008. A new version of the obligation, called The Household Energy Supplier Obligation, is due to start in 2011 and run to 2020.

15 Previous versions of the obligation on suppliers, which the NAO examined in its 2008 report⁵, were the Energy Efficiency Commitment Phase 1 (2002-05) and the Energy Efficiency Commitment Phase 2 (2005-08). In both phases of the Energy Efficiency Commitment, suppliers met their targets. The phase 1 target was to install or provide measures which would result in an energy saving over the lifetimes of the measures equivalent to 62 terawatt hours (TWh). By the end of phase 1, suppliers had installed or provided measures equivalent to 86.8 TWh, exceeding the target by 40 per cent. Suppliers also appeared at the time of our report to have exceeded their

⁵ *Programmes to reduce household energy consumption, HC 787, Session 2007-2008.*

targets for the second phase, which concluded in March 2008, with provisional results suggesting suppliers had installed or provided measures equivalent to 185 TWh against a target of 130 TWh. Suppliers have relied heavily on insulation measures to achieve their energy efficiency targets. In the first phase 56 per cent of target savings came from insulation measures, 24 per cent from energy efficient lighting, 11 per cent from energy efficient appliances and 9 per cent from more efficient heating systems.

Coherence with other Government initiatives on energy efficiency

16 There are a range of other Government initiatives and programmes at local and national levels targeting fuel poverty. There are some instances of cooperation between initiatives, for example the coordination of the Warm Front Scheme with CERT. Suppliers under CERT, who must direct at least 40 per cent of carbon savings to a priority group of low-income and elderly consumers, have been working with eaga plc which delivers the Warm Front Scheme. Through this cooperation, suppliers have contracted with eaga to install insulation measures in households on their behalf, and can count these measures towards their CERT targets. The income received by eaga from the suppliers has been added to the total Warm Front Scheme funding available. As a result of its work with suppliers under CERT, eaga has reinvested £44.6 million between 2005 and 2008 back into the Scheme.

17 There is a risk of duplication of effort between some schemes. For example, the Warm Zones project set up by fuel poverty charities with the support of government in 2000 offers similar measures to those that Warm Front 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.

18 Some funding has been transferred between schemes. 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 Warm Front Scheme. As of March 2008, £23 million of Warm Front funding had been used to fund the £300 Heating Rebate Scheme, including £20 million (six per cent of total Scheme funding) in 2007-08.

19 The NAO recommended in its 2009 report⁶ on the Warm Front Scheme that the Department of Energy and Climate Change should make effective arrangements to enable work on the different energy efficiency schemes to be coordinated.

The methods used to target assistance at households which need it most

20 Eligibility for the Warm Front Scheme is based on receipt of benefits, which is used as a proxy for households likely to be in fuel poverty. Reliance on benefits may be a pragmatic, proxy measure to determine eligibility for the Scheme, but the inclusion of benefits that are not means-tested has led to households that are unlikely to be in fuel poverty being able to claim grants, resulting in an inefficient targeting of resources. 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.⁷ The Committee of Public Accounts found in its 2009 report that nearly 75 per cent of households assisted by the Scheme were not in fuel poverty. Some of the Scheme funding had supported households that were not fuel poor and homes that were already relatively energy efficient. Eighteen per cent of households that had received assistance under the Scheme between June 2005 and March 2008 already had a SAP⁸ (Standard Assessment Procedure) rating above 65, meaning they were less likely to have been fuel poor.

21 We found in our 2008 report on the Warm Front Scheme that it was only available to 35 per cent⁹ of households most likely to be ‘fuel poor’. 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. The Scheme has tried to account for this effect through offering a benefit entitlement check to all applicants, to determine whether they are eligible for additional benefits they are not currently claiming, which may make them eligible for the Scheme.

22 The Warm Front 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. The Scheme was revised in 2003 to improve its targeting, but this only added pension credit to the list of qualifying benefits. Funds are therefore not necessarily focused on the most vulnerable households.

23 The Committee of Public Accounts found a lack of clarity on whether the Warm Front Scheme is intended to improve energy efficiency or reduce fuel poverty. Energy efficiency measures could be delivered through other programmes, enabling the Scheme to focus on fuel poverty. The Committee recommended that to better target grants to the fuel poor, the Department should amend the Scheme eligibility rules to:

- exclude households which are 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.

⁷ Committee of Public Accounts, Thirty-ninth Report of Session 2008-09, *The Warm Front Scheme*, HC 350.

⁸ SAP is the Government’s Standard Assessment Procedure for calculating the energy performance of buildings.

⁹ English House Condition Survey 2006.

24 Previous versions of the CERT have sought to target vulnerable groups by requiring suppliers to undertake 50 per cent of their installations within households most likely to face fuel poverty. The policy has helped combat fuel poverty, but suppliers have had to turn down demand from other householders in order to keep to the required proportions. This has limited the total energy savings achieved by the policy.

25 When the Department for Environment, Food and Rural Affairs introduced the CERT in 2008, it set a target to achieve lifetime carbon savings through the scheme of 154 million tonnes of carbon dioxide. This target was subsequently increased by 20 per cent to 185 million tonnes in 2009, which is approximately double the equivalent target set under the Energy Efficiency Commitment Phase 2 (the previous version of CERT).¹⁰ The introduction of the new target under CERT was, however, accompanied by a reduction in the target proportion of installations for priority groups from 50 to 40 per cent.

Support for households which are not connected to the mains gas grid

26 There is a high incidence of fuel poverty amongst households that are not connected to the mains gas grid, and these households are classed as hard to treat. In its 2001 fuel poverty strategy, the Government made a commitment to deliver mains gas to more fuel-poor households.

27 The NAO found that the average time taken to complete jobs under the Warm Front Scheme for households not connected to the mains gas grid is often longer. eaga has found it difficult to find 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.

28 When the cost of heating work provided under the Warm Front Scheme exceeds the maximum grant, applicants have to pay the difference to the installer before work can take place. Households not connected to the mains grid are amongst those more likely to be affected. For example customer contributions are more likely to affect applicants in:

- hard to treat homes such as households off the gas network. These homes made an average contribution of £555 between June 2005 and March 2008 compared to an overall average of £538; and
- in rural locations, some of which may also be classified as hard to treat, which made contributions averaging £869 during the same period, which was 62 per cent higher than the average.

29 The number of applicants asked to make a contribution under the Warm Front Scheme increased from under one in ten in 2005-06 to nearly one in four in 2007-08. As at October 2008, 6,076 households (four per cent) asked to contribute to the cost had cancelled their application, and 14,326 households (ten per cent) had not progressed their application after being asked to make a contribution.

¹⁰ http://www.decc.gov.uk/en/content/cms/what_we_do/consumers/saving_energy/cert/cert.aspx.