

## **SCRUTINY COMMISSION – 8 DECEMBER 2011**

### **REPORT OF THE CHIEF OFFICER OF HOUSING, COMMUNITY SAFETY & PARTNERSHIPS** **RE: FUEL POVERTY REVIEW**

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#### **1. PURPOSE OF REPORT**

To inform Members of the national and local position in relation to fuel poverty and current and future energy suppliers obligations in relation to reducing fuel poverty.

#### **2. BACKGROUND TO THE REPORT**

##### **2.1 The National Position on Fuel Poverty**

The Warm Homes and Energy Conservation Act 2000 required the publication of a strategy setting out policies to ensure that as far as reasonably practicable no-one lives in fuel poverty. In 2001, the Government published its Fuel Poverty Strategy for England. This Strategy defined a fuel poor household as one which needs to spend more than 10% of its income on all fuel use and to heat its home to an adequate standard of warmth. This is generally defined as 21°C in the living room and 18°C in other occupied rooms. The strategy also set an interim objective of eradicating fuel poverty in vulnerable households as far as reasonably practicable by 2010; under the terms of the Warm Homes Act, no household should be in fuel poverty as far as reasonably practical by 2016.

Despite significant investment on measures designed, in whole or in part, to contribute to the objectives and targets set out in the Fuel Poverty Strategy the number of households assessed to be in fuel poverty has not fallen in line with the targets. The latest official fuel poverty statistics show that 3.3m households in England were in fuel poverty in 2008.

At the Spending Review in October 2010 the Government announced it would commission an independent review to take a fresh look at the fuel poverty target and definition. On 14 March 2011 the Secretary of State for Energy and Climate Change, Chris Huhne MP, announced that Professor John Hills had been requested to undertake this review.

In October 2011 the report containing the interim findings and issues for consultation from the review was published. This report examines issues around whether 'fuel poverty' constitutes a distinct problem, and the implications of the problems identified for its measurement. A copy of the full report can be found at <http://www.decc.gov.uk/assets/decc/11/funding-support/fuel-poverty/3226-fuel-poverty-review-interim-report.pdf>

The report has concluded that fuel poverty is still a distinct and serious problem and doing something about this problem is a priority. However to support action we need good measurement. With this in minds an alternative approach to measuring fuel poverty has been suggested. A final report is to be submitted in early 2012 following responses fro the interim report and further analysis will present final conclusions on these issues and on their implications for understanding the effectiveness of different policy approaches to the problem of fuel poverty.

## 2.2 Addressing Tariff Complexity

In October 2011 Ofgem put forward its preferred model for addressing tariff complexity in addition to its other retail reforms such as breaking the hold the 'Big Six' energy suppliers have on the wholesale electricity market.

In an attempt to offer more transparency and enable consumers to tell at a glance whether they can save money by switching suppliers, Ofgem has proposed that:

- All energy prices will be displayed in pounds and pence for example, '£/month' as well as 'p/kWh'
- Each supplier can only have one standard tariff (any tariff without a fixed end date) per payment method, per fuel. The three payment methods are direct debit, pre-payment meter, and standard credit, such as credit cards, cheques etc.
- Consumers will get a simple unit price and a fixed standing charge set by Ofgem- enabling them to choose the cheapest standard tariff more easily.
- Suppliers will have to publish the price of all their tariffs in the same way so consumers can compare between standard and fixed term tariffs.

In relation to the more innovative tariffs, Ofgem are proposing that:

- all other tariffs must have a specified end date and fixed terms and conditions
- there are no restrictions on the number, type, structure duration of fixed term contracts, including exit penalties.
- Terms and conditions including the price, are set at the start of the contract and cannot change for the duration of the fixed term (except in the case of tracker-type tariffs)
- Automatic roll over at the end of a contract will be banned. So customers who do not sign up to a new deal when their fixed term contract ends will default to the standard tariff. This will be free to switch.
- Strict rules on clear information will exist to ensure that the customer understands the terms.

It is intended that Ofgem will publish detailed proposals in November for consultation. Following a review of the consultation responses Ofgem aims to publish its final proposals and to consult on changes to suppliers' licence conditions next summer with a view to a final decision being taken in autumn. This means that some of the proposals could be implemented by winter 2012 providing the industry get fully behind the reforms. However at the time of writing this report this consultation had not been published.

## 2.3 The Energy Suppliers Current Obligations

The Government's Carbon Emissions Reduction Target (CERT) and Community Energy saving programme (CESP) programmes, require energy companies to help domestic energy consumers to improve energy efficiency in their homes. Energy suppliers are obliged to promote a significant portion of energy efficiency measures in low income households; in particular, CESP focuses exclusively on the most deprived areas in Great Britain. A variety of measures are promoted through the schemes, including loft and wall insulation, fuel switching and microgeneration. The overall target is a reduction of 293 million tonnes of carbon dioxide (lifetime). At least 40 per cent of this target must be achieved by targeting certain low-income domestic consumers or those over 70 years old – the 'Priority Group'. Super Priority Group is a sub category of the Priority Group and supplier have an obligation to achieve 16.2 million lifetime tonnes of carbon dioxide savings in this group.

Measures can be provided to any domestic household in Great Britain the funding for the installation or distribution of measures comes from the obligated suppliers. However, they are not required to spend a fixed amount of money.

The suppliers are not limited to offering measures to their own consumers and can partner with other organisations for the distribution of measures or to encourage the uptake of measures. For each scheme suppliers must demonstrate that their activity has led to additional energy efficiency measures being installed. Suppliers can meet up to 5 per cent of their obligation through the Priority Group flexibility mechanism. This aims to target low income hard to treat homes. Priority Group flexibility recipients must be in receipt of relevant benefits or tax credits and not in social housing.

The measures implemented by March 2011 has delivered over 190 million tonnes of CO2 savings over their lifetimes. Last year the CERT programme was extended, and therefore both CERT and CESP will continue to run to December 2012.

Energy Suppliers also have social obligations relating to debt, disconnection, prepayment meters (PPMs), Priority Service Registers (PSRs) and energy efficiency advice. For the first time, the 2010 domestic suppliers' social obligations annual report included data on debt, disconnection, PPMs and the PSRs in Scotland and Wales. The report highlighted the fact that there was an increase in the number of customers using prepayment meters during the 1990s for both fuels, although especially for electricity where they were used for debt management instead of disconnection. Between 2001 and 2006 there was a reduction in electricity prepayment meter customer numbers, whilst gas prepayment meter customer number continued to increase. Between 2007 and 2010 there was an increase in both the number of gas and electricity prepayment meters customers. At the end of 2010, around 15% of electricity customers and 12% of gas customers paid through a pre-payment meter. We are currently trying to establish the number of pre-payment meters installed within the borough and hope to report findings to the Scrutiny Commission in January 2012.

The annual report also shows that suppliers are making good progress in line with guidance developed by Ofgem in their 2010 Debt Review. To protect vulnerable customers from disconnection they are setting out requirements for suppliers to take all reasonable steps to identify where domestic customers are vulnerable before disconnecting them. The 2010 annual social obligations report highlights improvements and good practice by suppliers in this area, with disconnections falling to historically low levels. Between 2009 and 2010 disconnections for debt dropped slightly for both gas and electricity to 813 for gas and 1988 for electricity. For both fuels the levels are significantly reduced from the early 1990s.

In previous years there has been a voluntary agreement between energy suppliers and Government for energy suppliers to increase their spend on social programmes, which in 2010/11 was in its final year. The Warm Home Discount (WHD), a new scheme mandated by Government has replaced the voluntary agreement. Under this scheme, energy suppliers will provide targeted support to those in or at risk of fuel poverty. Worth up to £1.1 billion, suppliers are required to spend £250 million in 2011/12 rising to £310 million by 2014/15.

The WHD scheme is divided into four different elements: the Core Group, the Broader Group, Legacy Spend and Industry Initiatives. Department of Energy & Climate Change is coordinating the Core Group, with Ofgem taking the lead in administering the remaining 3 elements.

**Core Group:** Support under this category is due to be targeted at older poorer pensioner households. A data matching exercise between the Department for Work and Pensions (DWP) and suppliers will be conducted to match the details of recipients of certain elements of Pension Credit against suppliers' customer databases. Those

vulnerable customers matched by this process will receive an automatic annual rebate of at least £120, rising to £140 by the end of the scheme.

**Broader Group:** In addition to the Core Group, suppliers will be required to provide an annual rebate to a wider group of customers who are fuel poor or in a group at risk of fuel poverty. Eligibility for these customers will be set by suppliers themselves based on the framework set by the WHD Regulations. Each participating supplier will issue information on which customers could potentially benefit from this part of the scheme in the coming months.

**Legacy Spend:** Under the scheme, suppliers have the option to continue to offer discounted/social tariffs or rebates to the types of vulnerable customers who have benefited from these under the Voluntary Agreement.

**Industry Initiatives:** Suppliers can also choose to provide support through Industry Initiatives. Again each participating supplier will provide more information on this part of the scheme in the coming months.

Some examples of schemes/initiatives that are available to assist householders in fuel poverty are outlined in Appendix 1.

#### 2.4 Energy Supplier's Future Obligations Through Green Deal

The Green Deal is the government's flagship energy efficiency programme, which will enable private firms to offer consumers energy efficiency improvements to their homes, community spaces and businesses at no upfront cost and to recoup payments through a charge in installments on the energy bill. The scheme is expected to start in Autumn 2012 and energy suppliers will be required to collect Green Deal payments. In brief the Deal will allow households to borrow up to £10,000 to install energy saving measures to their homes. This could be for new boilers, solid wall insulation, roof, double-glazing and possibly renewables. The money borrowed to carry out the works will then be re-payable by the occupier through the electricity bill. The difference with this deal is that the repayments should not cost more than the money being saved on energy costs due to the works being carried out. Legislation is also being put in place to tie the loan to the house and not the occupier, therefore should the occupier move house the loan will continue to be paid by the next resident

This is a cross-tenure scheme; Green Deal will be available to any property owner: social landlord, private landlord or owner-occupier. It is also proposed that, from 2015, tenants will have a right to request the efficiency measures from their landlord, who cannot reasonably refuse such request.

Funding for the Green Deal is expected to come from the big utility companies, but interest has been shown by other companies such as B&Q and Tesco. Some of the larger City councils are also showing an interest in becoming Green Deal providers. Because of the initial capital required to fund the Green Deal it is unlikely that smaller district councils will be able to do this but may be able to form partnerships with providers as endorsement by the council is often reassuring to customers.

**This approach can only help people affected by fuel poverty to a limited extent in the short run. If they can not easily afford their existing bills, substituting part of their bill with a repayment charge that offsets this saving would not solve their problem, even if it had national benefits. Lower income households will therefore need higher levels of up front subsidy or even full subsidy in order to allow them to improve the energy efficiency of their dwelling.**

## 2.5 The Local Perspective

We have recently commissioned a report from HI4EM in relation to Fuel Poverty and the Green Deal in Hinckley & Bosworth. Using the **Hi4em Fuel Poverty model** which calculates households who actually spend, or risk of spending, more than 10% of income on energy, there are 6735 households in fuel poverty which equates to 14.49% of the total number of households

The report examines:

- The characteristics of fuel poor households using DECC and Experian Data used in the building of the Hi4em fuel poverty model
- UK carbon reduction targets in relation to the Green deal and what that means for Hinckley & Bosworth
- How targets can be adjusted so the Energy Company Obligation (ECO) targets sufficient low income households living in solid wall dwellings to both eliminate fuel poverty and meet carbon reduction targets
- How local authority data can be used to directly target around two thirds of all fuel poor households

Cross referencing all characteristics from HI4em would allow targeting of likely fuel poor households. From the report there is clear evidence that around two thirds of all of those in fuel poverty are single households and a further half of those are 'elderly'. Local Authorities already have all the data they need directly to target households benefitting from the Council Tax single person discount. When filtered to those in Band A or B properties an even higher proportion will be fuel poor.

The full report and the detailed data are contained in Appendix 2.

On the 15 November 2011 the Department of Health announced details of the Warm Homes Healthy People (WHHP) initiative. The aim of the £20 million fund is to support local authorities in the coming winter to reduce the levels of deaths and morbidity in their local authority that are due to vulnerable people living in cold housing in partnership with their local community and voluntary sector and statutory organisations. The timescale for applying for the fund is 8<sup>th</sup> December 2011 with notification of awards to take place on the 16<sup>th</sup> December. All expenditure associated with this fund must have been incurred by the 31<sup>st</sup> March 2012 with benefits from the investment to be experienced over this winter.

Due to the short time frame available a County wide bid is to be submitted which will contain a 'jigsaw' of proposals essential to promote positive outcomes for vulnerable people both in terms of their home environment and health and well-being and also extend projects currently being promoted in certain districts and not in others – ensuring equitable access across the county and city.

The County wide bid will aim to:

- Find a way to develop a 'list of lists' of vulnerable people (agreeing what we mean by vulnerable) in order to better affect their resilience
- Agree to 'pool' all our volunteers in order to co-ordinate a more robust response
- Raising awareness with volunteers and staff around winter planning and recognising/mitigating risk along with understanding how to access services
- Raising awareness with vulnerable groups across the county through existing mechanisms e.g libraries; luncheon clubs etc.

- Extending current emergency heating and hot water schemes to all 7 districts across the county
- Developing and extending 'nominated neighbour' and 'good friend' schemes across the county
- Development of further information re well-being to support volunteers and other visitors to people's homes
- Development of emergency food and keeping warm and well

**3. FINANCIAL IMPLICATIONS (DB)**

None at this time

**4. LEGAL IMPLICATIONS (AB)**

None at this time

**5. CORPORATE PLAN IMPLICATIONS**

Decent, well managed and affordable homes.

**6. CONSULTATION**

None.

**7. RISK IMPLICATIONS**

None – report for information and update.

**8. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

None – no decision being taken.

**9. CORPORATE IMPLICATIONS**

By submitting this report, the report author has taken the following into account: [if you require assistance in assessing these implications, please contact the person noted in parenthesis beside the item]

- Community Safety implications [Sharon Stacey, ext 5636]
- Environmental implications [Jane Neachell, ext 5968]
- ICT implications [Paul Langham, ext 5995]
- Asset Management implications [Malcolm Evans, ext 5614]
- Human Resources implications [Julie Stay, ext 5688]
- Planning Implications [Simon Wood, ext 5692]
- Voluntary Sector [VAHB]

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Background papers:

Fuel Poverty : The problem and its measurement Interim report of the Fuel Poverty Review, John Hill, October 2011

Fuel Poverty and the Green Deal in Hinckley & Bosworth, hi4em, November 2011

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