WARM HOMES CAMPAIGN

NEA Action for Warm Homes

NEA WARM HOMES CAMPAIGN POLICY BRIEFING

• NOVEMBER 2015 •

THE COLD HOMES CRISIS

CAN WE AFFORD TO WAIT?

COLD HOMES ARE CURRENTLY A BIGGER KILLER ACROSS THE UK THAN ROAD ACCIDENTS, ALCOHOL OR DRUG ABUSE

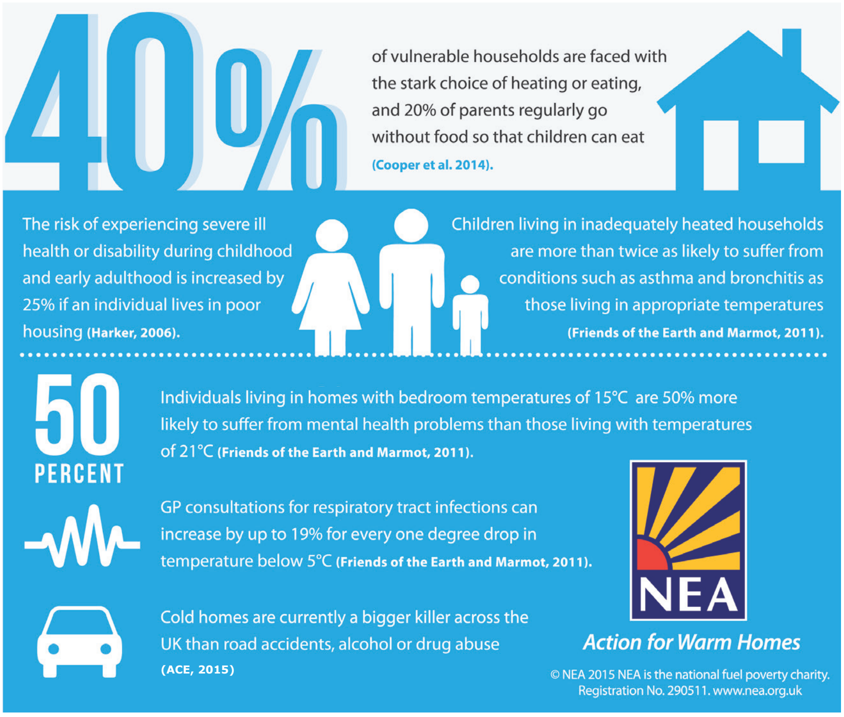
INTRODUCTION

NEA is the leading UK fuel poverty charity. At the forefront of NEA's focus are 4.5 million low income households across the UK whose health and wellbeing is badly affected as they struggle to afford the energy they need to heat and power their homes to an adequate standard. NEA has estimated that from 2015-2030 over 125,000 vulnerable people across the UK may die needlessly due to living in a cold home. Furthermore, national health services could spend billions treating cold-related morbidity, in excess of £22bn in England and Wales alone over the same 15 year period.

The Fuel Poverty (England) Regulations 2014 are now law. The objective is to ensure that as many fuel poor homes as is reasonably practicable have a minimum energy efficiency rating of Band C by 31st December 2030. This goal is supported by non-binding interim targets and the Fuel Poverty Strategy which was published in March 2015[1]. However, current resources are less than half of what is required to meet these targets.

This policy briefing therefore provides NEA's own 'take' on the key areas the UK Government must prioritise within the upcoming Comprehensive Spending Review (CSR) to meet fuel poverty commitments in England and support the other UK nations to meet their own statutory fuel poverty targets.

The structure of the briefing is focused on the three contributing factors which impact on fuel poverty and its depth: adequate heating and insulation standards, low household incomes and high energy costs[2]. The final section highlights some wider developments which are of note.



NEA'S MAIN POLICY RECOMMENDATIONS FOR THE UPCOMING CSR:

- DECC must ensure the next supplier obligation marks an ambitious commitment to reduce fuel poverty across Great Britain
- The UK Government must secure non-departmental capital infrastructure funds to deliver energy efficiency improvement through local partners
- Government should continue and expand the Warm Home Discount Scheme

REDUCING ENERGY USE

Whilst income support measures and energy discounts clearly play an important role in tackling two of the factors which cause fuel poverty (low household incomes and high energy costs), their effect is temporary and can be poorly targeted at the fuel poor. As a result, the main focus of NEA's policy activity is to seek to maximise action on energy efficiency. As well as being the most sustainable way of directly supporting low income households and ending the cost and suffering caused by fuel poverty, prioritising action on energy efficiency can also help optimise other related benefits (for example, medium and low skilled labour and GDP growth, better air quality, reduced energy imports and carbon reduction).

The independent body established under the Climate Change Act to advise the UK Government on reducing greenhouse gas emissions, the Committee on Climate Change (CCC), estimates that an investment of £1.2 to £1.8 billion per annum is needed to reach the requirements outlined in the Fuel Poverty Strategy for England and improve the homes of those currently in fuel poverty up to EPC Band 'C' by 2030. However as noted by a Parliamentary POST note published in September 2015 the Green Deal and the Energy Company Obligation (ECO) have seen a rapid decline in home insulation installation rates, following high rates encouraged by previous policies and current resources are less than half of what is required to meet fuel poverty targets in England[3].

Following the loss in 2013 of the publicly funded energy efficiency scheme, Warm Front, the ECO continues to be the main energy efficiency programme for low income households and communities in England. The ECO is funded through a levy on energy consumer bills and is also delivered across the rest of Great Britain by obligated energy suppliers. The debate over the future and shape of the successor to ECO has been intensifying, prompted by an increasing concern amongst the supply chain that the targets for the current phase of the scheme will be met well in advance of March 2017, possibly as early as spring 2016.

As a result, DECC are in the process of reviewing domestic energy efficiency policy with a view to making relevant announcements this autumn. In response, NEA has sought views from our supporters on current delivery, the future of the ECO scheme and feedback on our emerging policy recommendations for making it a more effective tool to address fuel poverty. NEA have also been seeking views on possible structures for additional energy efficiency programmes that could help address any hiatus in support caused by a lull in ECO delivery or more generally a lack of resources to meet the new fuel poverty and energy efficiency targets in England[4] or statutory commitments in Wales and Scotland[5]. Our key recommendations are as follows:

- Target the next supplier obligation at low- income households and deprived areas
- Address the 'able to pay' energy efficiency sector with non-levy funded incentives and longer-term regulation across tenures
- Move away from single measures by creating a new fuel poverty target with households moved up to a higher EPC
- Provide guaranteed access for the most vulnerable households
- Ensure the scheme administrator monitors capital contributions towards the cost of any energy efficiency work
- Reduce unnecessary administration and transaction costs
- Secure complementary non-departmental capital funds to improve domestic energy efficiency within the upcoming Comprehensive Spending Review

WHAT ARE THE RECOGNISED BENEFITS OF ACTING TO END FUEL POVERTY IN YOUR LOCAL AREA?

- Reductions in bills and energy arrears can increase spending within poorer communities
- Better living conditions and significant positive direct impacts on public health and fewer premature winter deaths
- Reductions in bills can lead to less stress and better mental health for occupants
- Local employment from a more buoyant energy efficiency industry will create more demand for local low and medium skilled labour
- Better local air quality

NEA received over 70 responses to an online questionnaire from a range of agencies at the sharp end of this issue (generators, supply chain companies, charities, local authorities etc.) who were asked non-leading questions on these recommendations and current delivery. 93% were not confident that there were sufficient resources under ECO to deliver measures to fuel poor households as required by statutory targets across GB and 82% were not confident that ECO provides sufficient access for low income vulnerable households that may be eligible for help but still receive little or no assistance from the current policy.

In terms of our recommendations: overall 89% agreed that the whole of the successor to ECO should be targeted at low income vulnerable households; 72% agree there is a need to move away from single measures to a policy which provides a more quantifiable contribution towards fuel poverty targets; 89% agreed the Government must work with obligated suppliers to provide guaranteed access to the most vulnerable eligible households; whilst many noted energy efficiency measures should be provided for free if the policy is targeted at low income households as they are already paying for the policy through their energy bills 89% agreed that there should at least be a process to monitor capital contributions (to find out if delivery costs are proportionate) and 82% agreed ECO must be simpler, reduce unnecessary administration and transaction costs.

Implementing these recommendations effectively would ensure the next phase of the supplier obligation was targeted exclusively on low income households who live in energy inefficient properties (below EPC band C). It also requires policy makers to recognise the limits to funds that can be drawn from energy consumer funded initiatives and a reliance on activity that can be delivered exclusively by energy suppliers. As a result, NEA's recommendations also highlight the need for the UK Government to also introduce a Warmer Community Fund (WCF). This new programme would run alongside the next supplier obligation and whilst it would be supported by other Government departments, this activity would not be dependent on departmental budgets and would be paid for by current infrastructure budgets, non-departmental capital budgets or carbon tax and VAT receipts.

WHAT DIFFERENCE COULD AN ADEQUATE INVESTMENT IN DOMESTIC ENERGY EFFICIENCY MAKE NATIONALLY?

- Over £3 returned to the economy per £1 invested by central government
- Up to 26% reduction in imports of natural gas in 2030, worth £2.7bn in that year
- Domestic consumers could save over £8 billion per annum in total energy bill savings
- Increase relative GDP by 0.6% by 2030
- Increased employment by up to 108,000 net jobs, mostly in the service and construction sectors. These jobs would be spread across every region and constituency of the UK.
- 23.6MtCO2 reductions per annum by 2030, after accounting for rebound effects

Given the UK Government would also be responsible (and must ensure) an equitable disbursement of funds across different geographic locations, NEA also highlights the need for the new WCF to emulate the Scottish area based schemes where all local authorities receive some ring-fenced funds with additional funding allocated to keener authorities (or their partners) via a 'top up'.

NEA also notes local authorities, housing associations and other local agencies can help reduce public costs (like cold related morbidity) by improving housing standards. However it is also critical they work more closely with a range of partners (Local Enterprise Partnerships, local Health and Wellbeing Boards, energy and water suppliers, Electricity and Gas Network Operators etc), to create local co-funding opportunities.

The 'Allowable Solutions' provision in which new build developers could have funded energy efficiency retrofits in existing homes (to help meet the zero carbon standard for new homes) would have been one significant potential co-funding source. Recent research found that on projected rates of house building, Allowable Solutions could have provided around £190 million pa to retrofit existing housing, enough to improve 397,000 low income households' homes to EPC C by 2025. However, following the Government's announcement to scrap zero carbon homes in July there is now no prospect of securing these funds and these resources will have to come from different sources.

NEA highlights this situation further underlines the need to ensure the UK Government adequately resource initiatives that make homes warmer and healthier and in turn encourage economic growth within the upcoming CSR.

There is also a need to ensure central Government retains the responsibility for monitoring delivery nationally by insisting on compliance with existing reporting mechanisms (such as HECA) or a new enhanced reporting mechanism. This latter step is to ensure there is adequate oversight of enforcement of existing housing standards by local authorities. NEA fears this latter criterion is not currently being met by the vast majority of local authorities due to the complexity of current regulations (particularly the new Private Rented Sector Regulations) and a lack of adequate resources. The Department for Communities and Local Government therefore also need to work with the DECC so that local government prioritise these issues.

Coupled with the development of a new interactive mapping solution for off gas grid homes which has been developed through an effective partnership between Government, industry and Ofgem, NEA hopes that Gas Network Operators (GDNs) will also benefit from a reliable source of funding for 'in-house measures'. Last year, the new Central Heating Fund was introduced to support the installation of first time heating systems (and ancillary insulation measures). The entire £25 million fund has now been allocated and projects are due to be completed over the next six months (in fact, DECC received bids totalling over £60 million). In order for GDNs to reach or exceed their new connection targets, NEA believes the Central Heating Fund must be expanded and funding committed year on year to align with the duration of the current price control, ending in 2021.

ACTION ON ENERGY COSTS

UK energy use has fallen by c. 12% since 2000 whilst energy bills for domestic, commercial and industrial customers have risen dramatically despite these reductions in energy consumption. Between 2004 and 2014 domestic electricity prices increased by 80% whilst gas prices doubled. As a result, the average proportion of household income spent on energy has also increased from 3.3% in 2004 to 5.1% in 2012, with low income households continuing to pay a disproportionately higher percentage of their outgoings on fuel[6]. Higher domestic energy prices have been driven by a range of factors such as increases in wholesale prices, environmental levies and networks costs:

- Wholesale gas and electricity prices more than doubled between 2004 and 2013.[7] Wholesale prices make up 45-55% of a domestic energy bill.
- Environmental levies increased from 2% of domestic energy bills in 2004 to 7% in 2014, in part to support the development of low carbon electricity generation technologies. [8,9] However, these levies also supported energy efficiency policies and the Government estimate that the overall effect on average 2014 domestic bills was a 6% decrease.[10]
- Costs for using the gas and electricity networks increased by 41% from 2007 to 2014 according to British Gas estimates.[11] These network costs make up 20-25% of a domestic energy bill.[12]

In July 2015, the Competition and Markets Authority (CMA) released its interim report which highlighted that consumers could save an average of £160 a year on their dual fuel bill by switching energy supplier.[13] However, switching rates have been in decline since 2008[14] due to low awareness of deals or difficulties with the switching process. The CMA has also stated that homes with prepayment meters currently gain the least savings from switching, are less likely to switch and pay on average 22% more than the cheapest direct debit deal.[15] Between 1996 and 2014 the proportion of customers on prepayments meters has also doubled from 7% to 14%.[16]

As a result of the upward pressures on prices, as well as providing access to effective and adequately funded programmes for low income households to reduce their bills through energy efficiency improvements, NEA believes the Government must continue income supplements and energy bill rebates for the foreseeable future.

The Warm Home Discount Scheme (WHDS) provides automatic electricity bill support to low income older age households. For other vulnerable and low income electricity customers (not of pensionable age) the one-off payment of £140 is not paid automatically but is available to those who apply in the summer period. This policy is paid for through a levy on energy consumers and is delivered across Great Britain by obligated energy suppliers and without an extension will expire in 2016. NEA is therefore pressing the CMA to recommend to Government they should continue and expand the WHDS. In particular, NEA is calling for an extention to current data sharing powers to provide the automatic electricity discount to all low income families, ensure all energy suppliers are obligated to deliver the core group rebate and finally for the Government to provide clarity that the scheme will run until the end of the this Parliament.

RAISING HOUSEHOLD INCOMES

Across the UK, there are currently 13 million low-income individuals, who, after housing costs, have incomes well below £16,000 per year.[17] Just under half are in employment but still struggle to meet the costs of living, including utility bills. NEA believes increasing household incomes is an essential part of tackling fuel poverty and for the foreseeable future there is a need to continue income supplements like the Winter Fuel Payment for economically inactive pensioner households but also ensure this policy (or energy bill rebates such as the WHDS) automatically benefit the poorest working households.

Ensuring households claim the benefits they are entitled to, is also a key part in addressing low incomes and poverty more generally. Receiving the right benefits not only increases income it also passports claimants to other forms of financial and practical support such as automatic energy rebates and assistance through the Government's energy efficiency schemes or the WHDS. According to Age UK, around 1 in 3 households eligible for Pension Credit are not claiming this benefit.

As a result, NEA wants the Government to dramatically improve take-up of welfare benefits and has called on the Department for Work and Pensions (DWP) to work more closely with the third sector and fund a co-ordinated campaign for Benefit Entitlement Checks by allocating a percentage of the total amount of unclaimed benefits to pay for this activity.

OTHER AREAS TO ADDRESS

HONOURING AND EXCEEDING MANIFESTO COMMITMENTS

The Conservative party has stated their commitment to alleviating fuel poverty. In their General Election manifesto they committed to honouring fuel poverty commitments and therefore developing an effective strategy to bringing as many homes as reasonably practicable to energy performance certificate (EPC) band 'C' by 2030 - alongside interim targets of 'E' by 2020 and 'D' by 2025. NEA has challenged the new Government to accelerate the timeframe for this necessary action.

NEA published its *Manifesto for Warmth* before the General Election in May 2015. As well as detailed key asks for England, Wales and Northern Ireland, we called on MPs and prospective candidates to challenge their party leaders to end the costs and suffering caused by fuel poverty once and for all and introduce a new, adequate and additional funding stream, to radically improve the energy efficiency of 2 million low-income homes by 2020 and end the suffering caused by fuel poverty within 10 years.

DECC HEALTH BOOSTER FUND AND NICE GUIDANCE AND RECOMMENDATIONS

In March 2015, NICE published their long awaited guidance on excess winter deaths, cold related morbidity and the health risks associated with cold homes. Specifically NICE called on health practitioners not to discharge vulnerable patients into a cold home, develop a deliberate strategy to address cold related illness and the factors which contribute to them, including energy inefficient properties and then specifically address the identified by commissioning local affordable warmth services.

Building on the positive recommendations, DECC, the Department of Health (DoH) and Public Health England (PHE) should monitor the extent to which Health and Wellbeing Boards have adopted the guidance and prioritised fuel poverty or reducing excess winter deaths and cold-related morbidity within their local Joint Needs Strategic Assessments (JSNA). PHE should regularly update the current NEA analysis of which fuel poverty schemes have accessed local Clinical Commissioning Group (CCG) funding directly. DoH should also provide estimates of the overall scale and cost of the impact of cold related morbidity on health services, alongside an assessment of the extent to which any relevant policies are assumed to be reducing these unnecessary costs.

ENHANCED PROTECTIONS FOR PRE-PAYMENT METER CUSTOMERS

NEA continues to urge Ofgem to explore how to strengthen protections for pre-payment meter (PPM) customers. Ofgem has subsequently sought views on ending charges for installing and removing PPMs and ending the use of security deposits. The report also found that despite there being substantial savings available for PPM customers to switch to the cheapest direct debit (DD) tariff, the proportion of PPM customers that have never switched remains higher than DD customers. They also rightly highlight the need for pre-payment customers to be able to benefit from the substantial savings available for switching to the cheapest direct debit tariff and removing any barriers preventing this becoming the norm once debt is repaid. A key first step is honouring the commitment to end charges for installing and removing PPMs and the use of security deposits.

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ENDNOTES

1. *Cutting the Cost of Keeping Warm*, 2014 HM Government
2. Whilst heating and insulation standards are primarily the responsibility of the national governments within the four UK nations, policies which directly impact household income (such as income tax) and energy regulation are largely still determined by UK Government policy. In Northern Ireland however, energy regulation is already a fully devolved matter and consequently fuel poor households are not assisted by GB energy company programmes which apply across the other three nations.
3. POST note: Number 503, 'Trends in Energy': September 2015, p2. The Parliamentary Office of Science and Technology states it produces independent, balanced and accessible briefings on public policy issues related to science and technology.
4. The independent body established under the Climate Change Act to advise the UK Government on reducing greenhouse gas emissions, the Committee for Climate Change (CCC), estimates that an investment of £1.2 to 1.8 billion per annum is needed to reach the requirements outlined in the Fuel Poverty Strategy for England and improve the homes of those currently in fuel poverty up to EPC Band 'C' by 2030 (or an earlier date of 2025). Subsequent figures by Policy Exchange have highlighted current resources are less than half of what is required to meet this target. The CCC also stated that an accelerated timetable could be achieved cost effectively. An independent consultant Verco has also estimated it would cost £2.6 billion per annum to improve the homes of all 4.7 million low-income households to Band 'C' by 2025. Improving the homes of all low-income households, rather than the low income high energy cost fuel poor (LIHC), is required as it helps overcome the difficulty of 'churn' arising from the relative LIHC definition and makes the delivery and targeting of programmes much more straightforward.
5. The 2010 Fuel Poverty Strategy set out a target to eradicate fuel poverty in Wales by 2018. The Housing (Scotland) Act 2001 requires the Scottish Government to eradicate fuel poverty in Scotland, as far as is practicable, by November 2016.
6. The Institute for Fiscal Studies (IFS) has illustrated that the increases in energy prices have been (and are) disproportionately felt by low-income households. See: IFS Green Budget 2014, 05 February 2014
7. UK natural gas index; APX historical electricity spot price data https://www.theice.com/marketdata/reports/indices/FuturesEuropeNaturalGas.shtml; ftp://ftp.apxgroup.com/
8. DECC, Policy impacts on prices and bills, 2014 https://www.gov.uk/policy-impacts-on-prices-and-bills
9. Centre for Sustainable Energy, Environmental and social levies: Past, present and future, October 2012, Page 39 https://www.cse.org.uk/downloads/reports-and-publications/policy/environmental_&_social_levies_past_present_&_future.pdf
10. DECC, Policy impacts on prices and bills, 2014 https://www.gov.uk/policy-impacts-on-prices-and-bills
11. Written evidence submitted by British Gas to Energy network costs: transparent and fair?, 2015 http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/energy-and-climate-change-committee/network-costs/written/8309.html#_ftn2
12. CMA, Energy market investigation Summary of provisional findings report, 2015, Page 5 https://assets.digital.cabinet-office.gov.uk/media/559ad883e5274a155c00001b/EMI_PFs_Summary.pdf
13. CMA, Energy market investigation Summary of provisional findings report, 2015, Page 7 https://assets.digital.cabinet-office.gov.uk/media/559ad883e5274a155c00001b/EMI_PFs_Summary.pdf
14. DECC, Quarterly domestic energy switching statistics https://www.gov.uk/government/statistical-data-sets/quarterly-domestic-energy-switching-statistics
15. Press release: Prepay energy customers paying £226 a year more, 3 July 2015 https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/prepay-energy-customers-paying-226-a-year-more/
16. CMA, Energy market investigation Summary of provisional findings report, 2015, Page 22 https://assets.digital.cabinet-office.gov.uk/media/559ad883e5274a155c00001b/EMI_PFs_Summary.pdf
17. Households Below Average Income: An analysis of the income distribution 1994/95 – 2012/13 (United Kingdom), 2014, Department for Work and Pensions.