

# National Energy Action (NEA) response to the Business, Energy and Industrial Strategy (BEIS) Committee inquiry on energy efficiency



Action for Warm Homes

## About National Energy Action (NEA)

NEA<sup>1</sup> work across England, Wales and Northern Ireland to ensure that everyone in the UK<sup>2</sup> can afford to live in a warm, dry home. To achieve this, we champion and deliver national and local energy efficiency programmes, aim to improve access to energy and debt advice, provide training and coordinate other related services which can help change lives<sup>3</sup>.

## Background to our response

In winter 2017/18, the number of excess winter deaths (EWDs) across England and Wales exceeded 50,000, the highest recorded for over 40 years<sup>4</sup>. This was recently described during Prime Minister's Questions as a "shameful indictment of our failure as a country to protect our most elderly and vulnerable residents"<sup>5</sup>. NEA agrees and whilst the causes of EWDs vary<sup>6</sup>, we estimate one of the largest contributors to these needless deaths is vulnerable people, often struggling with existing ill-health, being unable to heat their homes adequately, if at all<sup>7</sup>. As well as an unacceptably high number of preventable winter deaths, millions more people are struggling significantly to afford to adequately heat and power their homes. Despite the new Default Tariff<sup>8</sup> Price Cap, the increasing price of energy<sup>9</sup>, coupled with low household incomes<sup>10</sup> and some of the least energy efficient housing in Europe<sup>11</sup> is prompting many unsafe coping strategies<sup>12</sup> and creates huge pressures and needless increased costs for our stretched health and social care services<sup>13</sup>. Conversely, it is now well recognised that ending fuel poverty by improving the energy efficiency can contribute towards achieving other important UK Government goals; a successful industrial strategy<sup>14</sup>, supporting small business growth in every region and achieving major carbon emissions reductions<sup>15</sup>. These key actions can also help improve local air quality<sup>16</sup>, reduce health and social care costs<sup>17</sup> and provide real benefits to households who are struggling financially<sup>18</sup>.

## Our response

It is important that the Government continues to act to increase the pace of decarbonisation in order to meet the UK's carbon budgets. However, it is equally important to ensure that the transition to a decarbonised energy system is made in a manner that is as fair and equitable as possible, so that the Government can meet its equally important statutory 2030 fuel poverty target<sup>19</sup> and corresponding milestones<sup>20</sup>. Therefore, schemes that are designed to reduce carbon emissions in any sector must not cause adverse distributional impacts for vulnerable domestic customers that struggle to pay their energy bills.

It is of concern to us that BEIS is considering several types of scheme to fund measures for energy efficiency in the small and medium enterprise sector, without undertaking a fundamental distributional analysis that assesses the impacts of the proposals on different types of domestic customer. It is especially concerning that one of the options is for a business energy efficiency obligation, which would act a lot like the energy company obligation (ECO), and that the consultation states that BEIS are "particularly sensitive to adding extra costs to business", implying that such a scheme would be levied on consumer bills, and not the bills of business. This would be an unacceptable result. Recovering the cost of energy policies through levies on energy bills is a regressive practice for two reasons<sup>21</sup>. Firstly, the increase in direct energy use bills that results from these costs hits the lower income households hardest, as these energy costs account for a greater share of their income than for richer households. Secondly, direct energy use on home heating and power represents a much smaller share of the richest households' total energy use. These issues would be further compounded, in this case, because low income domestic households will pay towards the scheme, but not receive any direct benefit from it.

Domestic customers bear the brunt of the cost for current policies, as costs are generally recovered through levies, with exemptions for energy intensive industrials. This is partially remedied by the fact that many such policies are targeted at low income households. It is however not fair, or equitable, to expect domestic consumers to pay the price for a new scheme to benefit businesses that would have no direct benefit to them at all, let alone to help the poorest in society. Such a decision would undoubtedly have the outcome of increasing energy costs for all domestic consumers, pushing some

households further into fuel poverty and working in contradiction to the Government's efforts to meet the 2030 Fuel Poverty target, which is already looking challenging to meet.<sup>22</sup>

**To ensure that any policy to increase energy efficiency in the SME sector is fair and equitable, it is crucial that BEIS identify, directly address and/or minimise any potential negative distributional impacts on domestic consumers if this mechanism is levy funded.**

<sup>1</sup> For more information visit: [www.nea.org.uk](http://www.nea.org.uk).

<sup>2</sup> NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

<sup>3</sup> A major recent focus for the charity has been NEA's Health and Innovation Programme (HIP) which was a £26.2 million programme to improve energy efficiency within fuel poor and vulnerable households in England, Scotland and Wales. Launched in April 2015 by NEA as part of an agreement with Ofgem and energy companies to make redress for non-compliance of licence conditions, it remains the biggest GB-wide energy efficiency programme implemented by a charity which puts fuel poverty alleviation at its heart. For more information on HIP visit: <https://www.nea.org.uk/hip/>

<sup>4</sup> Office for National Statistics, November 2018, see:

<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/excesswintermortalityinenglandandwales/2017to2018provisionaland2016to2017final>

<sup>5</sup> PMQs, 19 December 2018 See: <https://www.nea.org.uk/media/news/nea-slams-record-number-of-excess-winter-deaths-last-winter-as-predictable-preventable-and-shameful/>.

<sup>6</sup> The main causes of excess winter deaths are attributable to respiratory and cardio-vascular diseases which are badly exacerbated by cold conditions. Other causes may include influenza, trips and falls or in a small number of cases, hyperthermia. Public Health England cites studies that 10% of excess winter deaths are directly attributable to fuel poverty and that a fifth of EWDs are attributable to the coldest quarter of homes. This was regarded as a 'conservative' estimate as separately the World Health Organisation stated that 30% is the best estimated share – based on European evidence – of EWDs that can be considered attributable to cold housing conditions. This suggests that poor energy performance – manifested in homes that are hard and/or expensive to heat, thereby exacerbating the risks of respiratory and circulatory problems and poor mental health – is a significant contributory factor to the number of EWDs in the UK.

<sup>7</sup> On average, this results in over 10,000 British citizens dying needlessly due to cold homes each year. For more information see UK Fuel Poverty Monitor Report 2018, NEA and EAS, page 3. See: <http://www.nea.org.uk/wp-content/uploads/2018/09/UK-FPM-2018-FINAL-VERSION.pdf>.

<sup>8</sup> NEA estimates that a million low income pensioners paying more than they would have done without the new price protection. This is because the default price cap accounts for some costs that the safeguard tariff does not, including the costs of the smart meter programme. It is therefore likely that the default cap will rise quicker than the safeguard tariff. We estimate a minimum of £9m per annum. This is based on analysts Jefferies estimates that the default cap will rise by £9 due to an increase in operating costs for Summer 2019 (see <https://mobile.twitter.com/i/web/status/1039130554409598976> ). Assuming that operating costs should only increase due to extra costs associated with the smart meter programme, this equates to a £9 difference for 1 million customers (according to Ofgem (<https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/protecting-and-empowering-consumers-vulnerable-situations/consumer-vulnerability-strategy/vulnerable-customer-safeguard-tariff>), meaning an overall detriment of £9m.

<sup>9</sup> According to recent analysis by MoneySuperMarket, the average price of the cheapest 30 energy tariffs has jumped by more than a fifth in just five months. After price hikes from all of the major suppliers, the average yearly cost of the best deals is now (Oct 2018) £1,042, having jumped £178 since May 2018.

<sup>10</sup> BEIS Fuel Poverty Statistics for England, table 27, fuel poverty by employment status of household reference person (HRP), 2018. Across the UK, 22% of individuals (14 million people) are in relative poverty after housing costs (they have a household income below 60% of the median). Net disposal income after housing costs of a low-income household is £248 per week (£12,933 per year), equating to 60% of the UK median of £413 per week. The income after housing costs of a fuel poor household is even lower: £10,118 per year, equating to a net disposal weekly income of £194. Investigating income deciles shows the poorest 10% of UK society have a gross average weekly household income of £130 (£6,760 per year). Fuel poor households overwhelmingly comprise the poorest fifth of society: 85% of households in fuel poverty in England are located in the first- and second-income deciles and 78% of English households in those two deciles are fuel poor.

<sup>11</sup> The Cold Man of Europe, Association of Conservation of Energy (ACE), 2015.

<sup>12</sup> According to our own recent call for evidence the strategies include going to bed early to stay warm, under-heating the home and avoiding the use of central heating, using un-safe or un-serviced heating appliances, cutting back on electricity and using candles instead of lights, spending the day in heated spaces such as a library, café or even A&E, not inviting friends and family into the home, cooking using alternative sources such as a BBQ, cutting back on buying food and a reliance on food banks, cutting back on buying essential personal items and formal and informal borrowing from friends and family. Although our survey did not evidence this, we know that in extreme cases people may resort to energy theft which is extremely dangerous. Over 150,000 cases were uncovered last year and many of these caused death or major or injury.

<sup>13</sup> The current scale of these problems in England alone costs health services approximately £3.6 million per day. The figures NEA has cited for the costs to the NHS are extrapolated from Age UK estimates that cold homes cost the NHS in England £1.36 billion per year in hospital and primary care (2012). See: [www.ageuk.org.uk/latest-news/archive/cold-homes-cost-nhs-1-point-36-billion/](http://www.ageuk.org.uk/latest-news/archive/cold-homes-cost-nhs-1-point-36-billion/).

<sup>14</sup> Draft National Infrastructure Assessment, National Infrastructure Commission, October 2017.

<sup>15</sup> Committee on Climate Change, Next steps for UK heat policy, October 2016.

<sup>16</sup> The Fuel Poverty Action Plan, Greater London Authority (GLA), June 2017.

<sup>17</sup> Age UK. 2012. The cost of cold: Why we need to protect the health of older people in winter.

<sup>18</sup> NEA estimates that some families in fuel poverty are facing an income shortfall of up to £9,331 per year (£778 per month) to cover basic essentials, including energy. As noted below, NEA has also warned many low-income households could miss out on energy rebates and the proposed new safeguard price cap. The findings are included as part of our "Bridging the Gap" report which highlights the scale of the impossible choices families will be making this winter.

<sup>19</sup> The 2015 Fuel Poverty Strategy sets a statutory target "to ensure that as many fuel poor homes as is reasonably practicable achieve a minimum energy efficiency rating of Band C, by 2030" See [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/408644/cutting\\_the\\_cost\\_of\\_keeping\\_warm.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/408644/cutting_the_cost_of_keeping_warm.pdf)

<sup>20</sup> The Fuel poverty strategy also sets two milestones to reach the 2030 target, namely to ensure that: (i) as many fuel poor homes as is reasonably practicable to Band E by 2020 and (ii) as many fuel poor homes as is reasonably practicable to Band D by 2025

<sup>21</sup> UKERC research came to this conclusion in their report 'Funding a Low Carbon Energy System: a fairer approach?' <http://www.ukerc.ac.uk/news/ukerc-research-on-energy-policy-published-in-the-conversation.html>

<sup>22</sup> The Committee on Fuel Poverty have assessed that in order to meet the 2020 fuel poverty milestone, the government need to provide £1b extra funding; to meet the 2025 milestone an extra £3bn; and to meet the 2030 target, an extra £5bn. This was presented in the CFP annual report for 2018

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/754361/Committee\\_on\\_Fuel\\_Poverty\\_Annual\\_Report\\_2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/754361/Committee_on_Fuel_Poverty_Annual_Report_2018.pdf)