



About National Energy Action (NEA)

NEA¹ works across England, Wales and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives. NEA's work is also delivered in partnership with local and national government, Ofgem, industry and the third sector to deliver practical solutions to improve the quality of life for those living in cold homes.

Background to our response

Over the last five winters the number of excess winter deaths due to living in a cold home is estimated at approximately 10,000 per year³. In 2017/18, the number of excess winter deaths (EWDs) across England and Wales exceeded 50,000, the highest recorded for over 40 years⁴. While the causes of EWDs vary⁵, 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 all⁶. 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 and are suffering with poor physical and mental health due to cold homes⁷. The resulting impact on health services is acute; costing the NHS between £1.4bn and £2bn every year, in England alone⁸ and creating huge needless strain on our stretched health and social care services. This winter could be particularly lethal.

Affordability of energy is an immediate concern for many households. In August, Citizens Advice estimated that 2.8 million UK adults had fallen behind on their energy bills.⁹ In a recent report¹⁰, NEA found that COVID-19 had created difficult conditions for fuel poor households, driven by an increase in energy use, due to more people spending more time at home, and a reduction in income, as many jobs were either lost or placed on furlough. The same research¹¹ found that three quarters of frontline organisations say there was a high risk of the increased building up of fuel debt this winter, as a direct result of the pandemic, and that during the lockdown months, energy efficiency measure installs dropping by almost 90%, the equivalent to 30,000 fewer measures installed. A recent independent analysis suggests that, if a second lockdown was re-imposed during winter months, families in cold, leaky homes would face heating bills elevated on average to £124 per month, compared with £76 per month for those in well-insulated homes – a difference of £49 (£48.7) per month¹².

Key Recommendations

1. There is an opportunity to ensure that future carbon pricing leads to fairer outcomes for domestic customers and supports other cost effective and sustainable way to decarbonise. **We continue to believe that a fund should be created, alongside or instead of the previously proposed industrial energy efficiency fund, to improve the energy efficiency of fuel poor homes and reduce the financial impact that carbon pricing has on those that are least able to afford it.**
2. Any decision to go ahead with the previously proposed fund, using carbon tax receipts to support business to decarbonise, must be accompanied by a reduction of the extent of exemptions for energy intensive industries from the indirect costs of the Renewables Obligation, Contracts for Difference, the Capacity Mechanism and Feed-in-Tariff schemes.
3. In addition to using the revenue from carbon taxes to help support low income and vulnerable energy consumers through the net zero transition, we also believe there is merit in considering whether this revenue would be well suited to funding schemes such as the “Green Gas Levy”, as an alternative to adding more costs onto bills.

Our Response

NEA continues to support the agenda to eliminate the UK's contribution to climate change by 2050 and appreciates that carbon pricing is a significant policy lever to meet this target. However, as the Government is considering the future of carbon pricing as the UK leaves the European we believe that there is an opportunity to ensure that future carbon pricing leads to fairer outcomes for domestic energy consumers and critically supports other cost effective and sustainable way to address these issues.

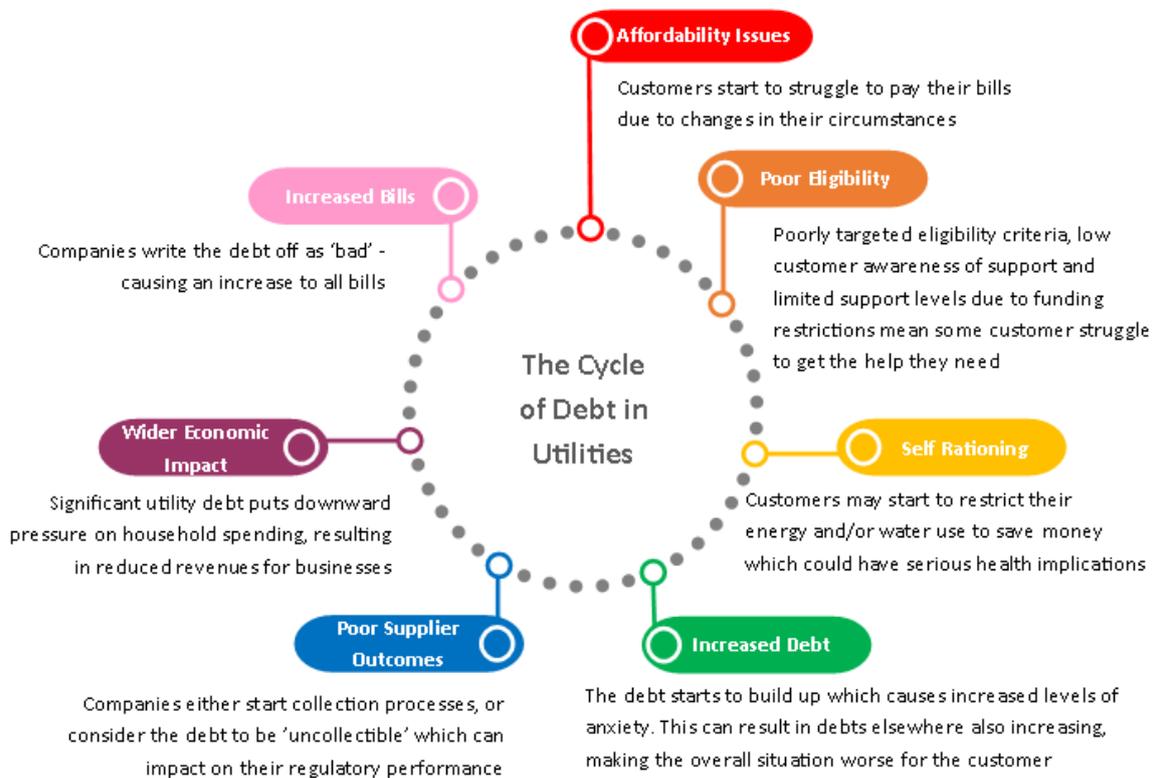
The impact of carbon pricing is felt in two main ways. Firstly, it alters the economics of businesses, especially the heavy industries that are most carbon intensive. We understand that because of this reason, and to ensure that UK industry can remain competitive, the Government has previously proposed a 'UK Industrial Decarbonisation Fund'. While NEA fully recognises the need to decarbonise and maintain the competitiveness of energy intensive users, we are currently deeply concerned by the impact of exemptions for energy intensive industries from the indirect costs of the Renewables Obligation, Contracts for Difference, the Capacity Mechanism and Feed in Tariff schemes. The current approach represents an erosion of the 'polluter pays principle' and provides disincentives to invest in more efficient processes. **It is therefore critical that any moves to recycle carbon tax revenue to decarbonise energy intensive industry simultaneously looks to reduce the extent of exemptions.**

The second main way that carbon pricing is felt in the UK is by consumers, in both increase prices for products, and increased prices for electricity. While for most, the impact is small, for some of the most vulnerable people in society, there is a significant impact. The CCC estimate that in 2016, carbon prices contributed £30¹³ to a 2016 energy bill. This is a substantial amount for a low income, fuel poor household that is struggling to pay the bills (especially as they are increasingly shouldering the cost of decarbonisation for Energy Intensive Industries).

For a household that relies on electrical heating, it will be an even greater amount, as the £30 based on customers who heat their homes with gas, and therefore do not pay towards carbon taxes within the heating portion of their bill. We estimate that a customer relying on electrical heating would make an annual £60 contribution in carbon taxes. This is almost the equivalent of having to pay for an extra month of energy – something that is unaffordable to a significant number of people. Citizens advice have said that 140,000 households self-disconnected for affordability reasons in 2017¹⁴, suggesting that they just do not have enough money to pay their bill and heat their home. On top of this, BEIS research¹⁵ has shown that that the 2.2m fuel poor households in England are more likely to use less energy than they need (self-ration) than other households, thus dangerously inadequately heating their homes. It is likely that this is due to affordability pressures.

The COVID-19 crisis has exacerbated the issue of energy affordability in the short term, reducing incomes and increasing energy usage. This has led to increased utility debt. In August, Citizens Advice estimated that 2.8 million UK adults had fallen behind on their energy bills.¹⁶ Policy Institute at Kings College London¹⁷ estimated that "3 in 10 have experienced a reduction in their income as a result of Coronavirus", and that "while 3 in 10 people have had to cut back on non-essential spending, 2 in 10 have had more money left at the end of the month". This combination of reduced incomes and increased debt has a profound impact on householders, and in our survey of organisations work to support fuel poor households, three quarters said there was a high risk of the increased build-up of fuel debt, as a direct result of the pandemic.

Reducing utility debt has significant benefits beyond households that struggle to pay their bills. The figure below illustrates NEA's interpretation of the cycle of debt in utilities. It shows how a change in customers' circumstances can lead to increased debt, poor supplier outcomes and wider economic impacts, culminating in increased bills for all which adds once again to the affordability issues experienced by many.



Because of the pressure that a carbon tax puts on to low income, vulnerable households, we firmly believe that some of the receipts from the tax should help such households. It is understood that energy efficiency is the best and lasting way to bring people out of fuel poverty, permanently reducing energy bills as well as needless health & social care costs, queues at GPs and A&E and achieve other important UK Government goals; a successful industrial strategy, supporting small business growth in every region and achieving major carbon emissions reductions. These key actions can also help improve local air quality, reduce health and social care costs and provide real benefits to households who are struggling financially. **Therefore, we believe that a fund should be created, alongside or instead of the proposed industrial energy efficiency fund, to improve the energy efficiency of fuel poor homes and reduce the financial impact that carbon pricing has on those that are least able to afford it.**

This ask, to reinvest income from a carbon tax into the energy efficiency of households, is reflected in the recommendations of the Zero Carbon Commission report “How Carbon Pricing Can Help Britain Achieve Net Zero by 2050”¹⁸. The report considers three ways that the revenue could be used:

1. To fund the COVID-19 economic recovery.
2. To fund innovation to net zero.
3. To compensate households.

The report concludes that second and third can be combined, for example by using that some of the carbon charge revenue could fund household energy efficiency upgrades.

It is also something that was a key proposal within the ‘Energy Bill Revolution’ campaign¹⁹, with 200 member organisations, 100,000 individual supporters and 188 supporting MPs. The campaign argued for using carbon tax revenue to fund energy efficiency improvements. The campaign’s briefing document said that “If the Government recycled this carbon revenue back to households, it could provide billions of pounds to help insulate the UK’s homes... This could bring 9 out of 10 homes out of fuel poverty, lower people’s bills, cut carbon emissions further and create jobs”

In addition to using the revenue from carbon taxes to help support low income and vulnerable energy consumers through the net zero transition, we also believe there is merit in considering whether this revenue would be well suited to funding schemes such as the “Green Gas Levy”²⁰, which as proposed would recover costs using a fixed meter charge – a regressive method of cost recovery²¹ that is additional to carbon taxes.

According to a recent progress report by the Committee on Fuel Poverty (CFP)²² and BEIS's Fuel Poverty Statistics published in May 2020, progress against the first milestone (for all fuel poor homes to reach the energy efficiency level of EPC Band E or above by 2020) is flat-lining and there are still 177,000 fuel poor households living in the least effect homes, meaning they need to spend well over £1,000 per year more than someone not living in poverty. Their analysis also includes recent and projected progress towards the other Band D milestone (for all fuel poor households to reach Band D by 2025) and the final Band C target (for all fuel poor households to reach EPC band C by 2030); again, progress is also painfully slow with only 12% of all households meeting the 2030 requirement and despite living below the poverty line²³ millions are still spending, on average, an additional £334 per year on keeping warm compared to those not living in fuel poverty²⁴. CFP have therefore warned that the current aims in the Fuel Poverty Strategy for England are not being met²⁵. Their analysis also shows that funding, beyond that which has recently been announced, is needed to meet the statutory target and corresponding milestone²⁶. These warnings have been echoed by a range of independent organisations and other Select Committees who have set out a series of welcome and urgent actions to address this situation²⁷ which remain largely unmet.²⁸

The CFP has also set out the remaining gap in investment between current policies and meeting the near term 2020, 2025 milestones and final 2030 fuel poverty target. Before the announcement of the GHG, they stated that there is a funding shortfall of £13.7 billion to deliver the fuel poverty strategy for England. This is the shortfall after taking into account the impacts ECO3 for 2018 to 2022 and the amended PRS regulations that require Band E by 2020. They also said that the Clean Growth Strategy (CGS) proposals for extending 'ECO funding' to 2028 and extending the PRS trajectory to Band C and making social housing achieve Band C by 2030 could lower this shortfall by £3.8 billion to £9.9 billion. As these key actions are still outstanding and given the CGS proposals wouldn't have much effect until after 2025, they also recommended that to achieve the 2020 and 2025 milestone, Treasury should follow through with the Conservative manifesto commitments²⁹ to improve the homes of fuel poor households.

Against this backdrop, the UK Government has made a commitment to invest £2 billion to improve home energy efficiency through a new voucher scheme - the Green Homes Grant (GHG) in England³⁰. While this is welcome, a more comprehensive, long-term strategy for improving homes and enhancing current programmes is needed in order to meet the UK Government's statutory fuel poverty commitments in the timescales set out in the Fuel Poverty Strategy and make wider necessary progress across the rest of the UK's housing stock. If the low income proportion of this new scheme were to have the same success in targeting fuel poor households as the CFP assume would be true for Home Upgrade Grants, it would contribute £0.8bn towards the shortfall, meaning that more than the required unmet funding to meet the 2030 fuel poverty target would be more than £9bn. Sustained central investment remains the key action to improve fuel poor homes, and a UK based carbon tax provides an excellent vehicle to use tax revenue equitably in the form of funding longer term energy efficiency schemes for the poorest households.

¹ For more information visit: www.nea.org.uk.

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

³ Over the last 5 years, there has been an average of 35,562 excess winter deaths. NEA estimates that approximately 30% of these are attributable to the impact cold homes have on those with respiratory and cardio-vascular diseases and the impact cold has on increasing trips and falls and in a small number of cases, direct hyperthermia. This is in line with estimates made by the world health organisation - http://www.euro.who.int/__data/assets/pdf_file/0003/142077/e95004.pdf

⁴ Office for National Statistics, November 2018, see: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/excesswintermortalityinenglandandwales/2017to2018provisionaland2016to2017final>

⁵ 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.

⁶ 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>.

⁷ According to a recent NEA call for evidence many fuel poor households are adopting unsafe strategies to try and survive winter. This includes the regular use of older dangerous or un-serviced heating appliances is commonplace, despite being potentially fatal or leading to heightened risks for nearby neighbours as a result of carbon monoxide poisoning or in extreme situations, fires, and explosions. Many more people are going to bed early to keep warm and using candles to save on electricity. People struggling to heat their homes are also spending their days in heated spaces such as libraries, cafes or even A&E to avoid the cold, damp and unhealthy homes continue to cause shocking levels of unnecessary hardship and premature mortality.

⁸ In 2016 BRE released its revised Cost of Poor Housing (COPH) report, which estimated the cost of poor housing to the NHS based on EHS and NHS treatment costs from 2011 and includes treatment and care costs beyond the first year. It also includes additional societal costs including the impact on educational and employment attainment. Finally, it provides information in terms of QALYs (Quality adjusted life years) as well as cost benefits, and to compare with other health impacts. The report estimates that the overall cost of poor housing is £2bn, with up to 40% of the total cost to society of treating HHSRS Category 1 hazards falling on the NHS. Overall, the cost to the NHS from injuries and illness directly attributed to sub-standard homes was estimated at £1.4billion, and the total costs to society as £18.6 billion.

⁹ <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/excess-debts-who-has-fallen-behind-on-their-household-bills-due-to-coronavirus/>

¹⁰ The 2019/20 Fuel Poverty Monitor found that vulnerable energy consumers had been particularly impacted in 5 ways due to COVID-19 1. An increase in energy use, due to more people spending more time at home 2. A reduction in income, as many jobs were either lost or placed on furlough 3. Increased affordability issues and therefore debt, leading to energy rationing 4. Reductions in smart meter/ECO installs 5. Difficulties in accessing support, especially where households were digitally excluded or spoke English as an additional language. For the full report, please visit <https://www.nea.org.uk/wp-content/uploads/2020/09/UK-FPM-2019.pdf>

¹¹ The 2019/20 Fuel Poverty Monitor found that Energy rationing can be deadly during cold winters and 95% of respondents to its call for evidence said there was a moderate or high risk of more households cutting back on their energy use due to being forced to spend more time at home during lockdown. Three quarters of respondents said they were concerned that there is a high risk of the increased building up of fuel debt this winter, as a direct result of the pandemic. For the full report, please visit <https://www.nea.org.uk/wp-content/uploads/2020/09/UK-FPM-2019.pdf>

¹² Lockdown in Leaky Homes, The Energy and Climate Intelligence Unit, 22 May 2020.

¹³ Table 1.6 in the Charts and Data of the CCC report 'Energy Prices and Bills Report 2017' <https://www.theccc.org.uk/publication/energy-prices-and-bills-report-2017/>

¹⁴ <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/PPM%20self-disconnection%20short%20report.pdf>

¹⁵

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/795520/Comparison_of_theoretical_energy_consumption_with_actual_usage.pdf

¹⁶ <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/excess-debts-who-has-fallen-behind-on-their-household-bills-due-to-coronavirus/>

¹⁷ The Report "Getting used to life under lockdown? Coronavirus in the UK" explored the impacts of coronavirus through a survey of 2,254 UK residents aged 16-75 by King's College London in partnership with Ipsos MORI, conducted on 20-22 May. For the full report, please visit <https://www.kcl.ac.uk/policy-institute/assets/getting-used-to-life-under-lockdown.pdf>

¹⁸ <https://static1.squarespace.com/static/5e1ee218fbeca217fe06a421/t/5f67b4bcc9621301a2109c9c/1600632008945/Zero+Carbon+-+How+carbon+pricing+can+help+Britain+reach+net+zero+emissions+by+2050.pdf>

¹⁹ <http://www.energybillrevolution.org/>

²⁰ <https://www.gov.uk/government/consultations/green-gas-levy>

²¹ The UKERC report "Funding a Low Carbon Energy System: a fairer approach?" found that Meeting energy policy costs by taxing household energy bills is regressive for two reasons. Firstly, the increase in direct energy use bills that results from these costs hits the poor hardest, as these energy costs account for a greater share of their income than for richer households. Secondly, and less well appreciated, is that direct energy use on home heating and power represents a much smaller share of the richest households total energy use. Therefore energy policy costs assigned directly to households are only levied on a quarter of the total energy consumption of the richest households. As a result, the richest homes use nearly four times more total energy than the poorest but only pay 1.8 times more towards energy policy costs. For more information see <https://ukerc.ac.uk/publications/funding-a-low-carbon-energy-system/>

²² Committee on Fuel Poverty annual report: 2020, The fourth annual report of the Committee on Fuel Poverty (CFP), Published 7 November 2018. For the report, please visit https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/894502/CFP_Annual_Report_June_2020.pdf

²³ The net disposable 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 disposable 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).

²⁴ The latest fuel poverty statistics show that there are 2.4m households in fuel poverty, spending, on average, £334 more than the average energy consumer.

²⁵ See: <https://www.gov.uk/government/publications/committee-on-fuel-poverty-interim-report-october-2019>.

²⁶ Committee on Fuel Poverty annual report: 2020, The fourth annual report of the Committee on Fuel Poverty (CFP), Published 7 November 2018. For the report, please visit https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/894502/CFP_Annual_Report_June_2020.pdf

²⁷ Business, Energy and Industrial Strategy Committee Energy efficiency: building towards net zero Twenty-First Report of Session 2017–19 Report, together with formal minutes relating to the report Ordered by the House of Commons to be printed 9 July 2019, page 23.

²⁸ Analysis from NEA suggests that out of 21 recommendations surrounding domestic properties in the BEIS Committees report on energy efficiency, the Government has only fully met three of these (providing central funding for energy efficiency, ensuring ECO installs are solely done by TrustMark compliant installers, and consulting on the future homes standard), and partially met a further three (Creating a national central fund [this was achieved but for a single year only], starting a social housing decarbonisation fund [this has been only announced, but only to the value of 1.3% of that required] and closing the loophole that allows houses to be built to old standards [partially closing this loophole was proposed in the future homes standard consultation])

²⁹ The Conservative manifesto and Queens Speech committed to investing an £9.2 billion in the energy efficiency of homes, schools and hospitals; £3.8 billion over ten years for a Social Housing Decarbonisation Fund, £2.5 billion over five years to 2025 for Home Upgrade Grants for support deep renovation for low income households living in highly inefficient homes and £2.9 billion over five years to 2025 for a Public Sector Decarbonisation Scheme. This amounts to an additional investment, over and above current policies, of £2.9 billion over the next two years.

³⁰ On the 8th July, the UK Government have confirmed they will invest £2 billion to improve home energy efficiency through a new voucher scheme - the Green Homes Grant. Business Secretary Alok Sharma has said about half of the fund - which is due to be spent in one financial year - will go to the poorest households and they could receive up to £10,000 towards energy efficiency improvements and will not have to contribute anything to the cost. The Treasury say the new scheme will launch in September meaning some improvements could be made in worst homes before winter. Following speculation, the scheme could exclude the private rented sector; the Chancellor also confirmed that privately rented homes will be able to access funding. For more information, visit <https://www.gov.uk/government/publications/a-plan-for-jobs-documents/a-plan-for-jobs-2020>