Consultation on the fuel poverty strategy for England

Response from the Centre for Sustainable Energy

16th September 2019
About CSE

CSE is an independent national charity, established in 1979 to tackle climate change and end the misery of cold homes. We undertake practical work to support households and communities to take action on energy, alongside original research and analysis to inform local and national policy.

We have provided impartial energy advice since our inception and have run a free-phone telephone energy advice service for householders since the early 1990s. We also support householders to undertake energy efficiency works (through the ECO and other grant programmes) and manage ECO flex schemes for numerous local authorities.

CSE has particular research expertise in: complex data modelling and software engineering; the fuel poverty and social distributional impacts of energy policy; the characteristics and causes of fuel poverty; demand side interventions including consumer attitudes and behaviour; low carbon planning; community engagement in sustainable energy; energy regulation and its impact on vulnerable consumers; and energy programme evaluation.

In 2014 CSE was awarded the prestigious national Ashden Award for Alleviation of Fuel Poverty – recognising the organisation’s practical achievements in helping fuel poor households, alongside our policy and research work and its national impact. CSE developed the UK’s first local area Fuel Poverty Indicator (FPI) back in 2003, and published local area fuel poverty maps for the whole of England (including London) up to 2009. CSE’s methodology was subsequently adopted and developed by Government within its approach to quantifying and reporting on fuel poverty nationally. Between 2012 and 2014, CSE designed and constructed the National Household Model (NHM) which remains BEIS’s primary domestic energy-policy modelling and analytical tool, including enabling modelling of scenarios to address fuel poverty at various geographies for any part of Great Britain. CSE has subsequently used the NHM to help the Committee on Climate Change model impacts on fuel poverty and to underpin a national study for the Committee on Fuel Poverty into synergies between national policies to tackle fuel poverty, reduce carbon emissions and keep household bills down.

Our overall view

The proposed new Low Income Low Energy Efficiency (LILLEE) rating addresses some of the fundamental issues with the Low Income High Cost definition. Our research\(^1\) for Consumer Focus during the Hills Review demonstrated substantial problems with the way in which Hills defines unreasonable energy costs. In particular, there were 1.3 million low income households no longer being classed as ‘fuel poor’ despite their properties’ poor efficiency and their resulting inability to afford their bills. The new measurement also aligns well with the statutory targets to achieve an EPC band of D for all fuel poor homes by 2020 and C by 2030.

However, whilst the proposed definition is a positive step, there remains a huge gulf in the resources required to tackle the issue of fuel poverty. The new strategy needs to clearly identify the necessary funding and the timeline for delivering the existing statutory targets. The Committee on Fuel Poverty (CFP) has identified a funding shortfall of £15.1 billion to meet the UK Government’s targets. It is worth noting that the shortfall already accounts for the funding that is available from the two policies that are currently approved and in place i.e. the ECO3 for 2018 to 2022 and the amended Private Rented Sector (PRS) regulations that require properties to reach EPC Band E by 2020. In their

\(^{1}\) CSE, ACE and Dr Richard Moore, Improving Hills approach to measuring fuel poverty, Consumer Focus 2012
written submission to the House of Commons BEIS committee\(^2\), the Committee on Fuel Poverty (CFP) have also estimated that, if implemented, the Clean Growth Strategy proposals\(^3\) could realistically reduce this shortfall by £6.2 billion. This £6.2 billion breaks down into £2.1 billion for extending ‘ECO funding’ to 2028, £2.7 billion for extending the PRS trajectory to EPC Band C in 2030 and £1.4 billion for making social housing achieve Band C by 2030. However, these proposals have yet to be implemented and even with them implemented the Government would still not achieve the 2020 and 2025 fuel poverty milestones.

CSE recently conducted research\(^4\) for the CFP examining the synergies and tensions between tackling fuel poverty, reducing carbon emissions and keeping household bills down. The report identified three key issues: tensions between fuel poverty policies that aimed to increase energy usage and carbon reduction policies; stacking of benefits on pensioner households; and poor use of revenue through policies such as the Winter Fuel Payment. Better policy design could address some of these fundamental issues. Our modelling work of a set of potential policy adjustments demonstrated how capital expenditure on energy efficiency measures could be increased from £990m to £1.7 billion.

The issue of carbon emissions is an important one given the UK Parliament’s recently declared climate emergency\(^5\) and the many local councils who’ve also declared one. The recent delivery of the ECO has had a significant focus on replacing broken boilers and first time gas central heating systems. The National Grid and Affordable Warmth Solutions Warm Homes Fund has a similar focus on installation of gas as well as oil systems. The installation of fossil fuel heating seems at odds with BEIS long-term strategy to decarbonise and electrify heat, especially as the emissions factor for electricity has reached a point where the lifetime carbon balance is often in favour of a heat pumps\(^6\). Replacing gas and oil boilers with a lower carbon heat source would therefore be a better outcome than switching households to a fuel that’s likely to be more carbon intensive in the future. BEIS needs to do further work to determine both the financial and carbon impacts of any policy changes.

In addition to the measures that policies support, the fuel poverty future strategy needs to look at the fairness of UK’s energy policies. The majority of UK energy policy costs are recovered from electricity users. Our previous research\(^7\) for Consumer Focus showed that this puts pressure on those heating with electricity, and called for an ambitious set of policies to help mitigate the impact of the higher prices i.e. supporting those heating with electricity, who are more likely to be low income and in fuel poverty.

The future fuel poverty strategy therefore needs to address the energy efficiency of the fabric of fuel poor households to drive long-term improvements in the EPC band, whilst also ensuring that improvements to heating reduce emissions where possible.

The following provides our answers to the specific consultation questions:

\(^2\) BEIS Committee Inquiry on Energy Efficiency, the Committee on Fuel Poverty stated that there is a £6.2m gap in For more information, please see [http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/business-energy-and-industrial-strategy-committee/energy-efficiency/written/95108.pdf](http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/business-energy-and-industrial-strategy-committee/energy-efficiency/written/95108.pdf)

\(^3\) The clean growth Strategy made five commitments surrounding domestic energy efficiency funding


\(^5\) [https://www.bbc.co.uk/news/uk-politics-48126677](https://www.bbc.co.uk/news/uk-politics-48126677)

\(^6\) Assuming the fabric has also been insulated.

\(^7\) CSE and ACE (2012), The impact of future energy policy on consumer bills, Consumer Focus
1. Do you agree with the Government’s proposal to update the fuel poverty metric to Low Income Low Energy Efficiency? If not, which metric would you prefer and why?

Yes.

2. The proposed metric update – LILEE – would necessitate certain updates to the current methodology, namely as regards the high costs threshold, but the other aspects of the current LIHC methodology would not necessarily need updating. Do you have views or evidence on whether Government should update those other aspects of the methodology on the introduction of LILEE, including the following:

   a. Household energy requirements calculation, including heating regime.
   b. Equivalisation factors, for fuel costs and for income;
   c. Income methodology;
   d. Fuel prices methodology.

   a. The current calculation of household energy use for lights and appliances is overly simplistic. This needs to be updated to reflect the current energy requirements of low-income households i.e. based on the way they use energy in their homes today. For example, occupancy may be a better predictor of this type of energy usage than floor area alone.

   b. See above. The impact of occupancy on energy use for lights and appliances needs to be properly considered.

   c. No change required.

   d. The fuel prices methodology does not allow for the type of tariff and as such does not reflect the actual prices paid by the low-income households. The tariff and supplier should be recorded in the survey.

3. Do you agree that Government should retain the current target and interim milestones?

   Yes, although achieving the 2020 target is likely to be impossible without considerable policy refocus i.e. the ECO being targeted at these households only. The 8% of fuel poor households in F and G-rated properties have to be found and given energy efficiency improvements in the next 15 months.

4. Do you have views or evidence on our proposal to add more detail on, and clarify, the meaning of the ‘Worst First’ principle, including the considerations raised above?

5. Do you have views or evidence on our proposal to add more detail on, and clarify, the meaning of the cost-effectiveness principle, including the considerations raised above?

   Questions 4 and 5 should be considered together as they are not mutually exclusive. The principle of addressing the worst properties first makes total sense as these will be the least thermally efficient and the most expensive to run. However, these will also require the most investment to improve them and thus be the most expensive.

   The worst-first principle isn’t currently being applied to the delivery of energy policy.

   The Government has claimed that the ECO is 100% focussed on the fuel poor but this isn’t true. NEA estimate that only ~30% of measures delivered under the new phase of ECO up to 2022 will be installed in fuel poor homes and the CFP estimates that over the 3.5 year programme, it will only lower the percentage of fuel poor homes in Band F/G by 1 percentage point. Beyond the targeting, there are numerous issues with the ECO – with cherry picking being the most pertinent. The
suppliers deliver their ECO obligation at the least cost possible (and the policy encourages them to do so). This means that they pay installers the lowest rate possible for each point saved. Once the ECO’s delivery has matured this means that the amount paid to installers settles at a price point where householders make a contribution but also take-up the offer. This means that the installers focus on those that are willing to make contributions, therefore not reaching the most in need first. Based on our experience, only 15-20% of households referred for heating under the ECO get a heating measure installed. The contribution of £600-700 is often far short of the £2,500 needed. Whilst this may be ‘cost-effective’ it’s excluding those in the deepest fuel poverty.

The worst first principle should be directly aligned with the delivery, and critically enforcement of, the minimum energy standards regulations (MEES). The MEES regulations already contain a cost cap exemption of £3,500. A recent BEIS Committee report on energy efficiency showed that this would result in only 48 per cent of Band F and G privately rented properties being upgraded to Band E by 2020. This therefore means that the Government is likely to miss its near-term fuel poverty milestones, due to there being more fuel-poor households in the private rented sector in F and G than in any other tenure.

As briefly touched on above, the cost-effective principle needs to be explored and defined. There needs to be more clarity on the way Government is using the definition of ‘reasonably practicable’. For example, by excluding expensive improvement measures with long pay-back periods, such as solid wall insulation, and ignoring any improvements of less than a single SAP point, the English Housing Survey (EHS) defines those that are not improvable at reasonable cost. As a result 19% of homes officially classed as in LIHC fuel poverty cannot be economically improved, while a further 7% have the potential for increasing their SAP ratings by no more than two SAP points. Exploring this further, over 61% of the fuel poor homes classed by the EHS data as not economically improvable have solid masonry walls, while over 9% are of non-traditional construction.

If solid walled insulation is not an option for fuel poor households, then it will not be possible to reduce the number of fuel poor homes living in F or G rated homes to zero i.e. the target cannot be met. These may be the worst but we will not do them first or at all. Given that we have declared a climate emergency and we now need to achieve net zero emissions by 2050, we need to insulate the entire housing stock. Prioritising these will deliver both fuel poverty savings and long-term carbon emission reduction targets (see Q.7 response). Furthermore, there should be an emphasis of achieving an EPC band C rather than E. This would enable any delivery programme to reduce emissions further and have more of an emphasis on whole-house retrofit. The more that can be done on each visit, the better.

The Government’s current view of cost-effectiveness is not fit for purpose. The calculation should include the cost of additional savings and benefits:

- The value to the NHS of improving these homes and limiting the ill-health (physical and mental) of the occupants to primary health care;
- The value of any associated social care savings which are typically covered by county council budgets; and,
- The life-time benefits to children brought up in cold homes and suffering from reduced life-chances as a result.

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8 See chapter 5 page 49 of the BEIS Committee report to parliament on energy efficiency
https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/1730/1730.pdf
6. Do you have views or evidence on our proposal to add more detail on, and clarify, the meaning of the vulnerability principle and, in particular, on our proposed changes to the meaning of the principle?

CSE agrees with the refined vulnerability principle, especially the focus on health and alignment with the NICE guidelines on cold homes. We manage Healthy Homes Dorset, a scheme funded by Dorset Council’s Public Health team, which gives free insulation to vulnerable householders. To be clear, it is not a fuel poverty programme and the insulation is offered free regardless of income.

If the vulnerability principle is to be included in the fuel poverty strategy then income and household efficiency need to be overlaid to make sure there is a focus on fuel poverty. If health is a driving factor then the cost-effectiveness principle must include wider primary and social care costs.

Aside from the overarching principle, vulnerability will need to be defined in more detail. For example, under UK Fuel Poverty Statistics, 74% of households are defined as vulnerable. To include this category in policy would result in switching help from those in fuel poverty to those not in fuel poverty. This is not acceptable.

Instead the many factors that can influence someone’s risk of vulnerability and capability need to be considered in terms of their relative significance and in how they may interact as compounding or mitigating risk factors. For example, the priority service register (PSR) has a number of categories that represent someone’s vulnerability to a power cut. These ‘needs codes’ have differing levels of priority within a DNO’s operations planning i.e. someone with a medical need for electricity is more vulnerable than someone who is over 65.

If vulnerability is to be included in policy design, and critically policy delivery, then we need to focus on households who do not have the capability and resources to tackle the poor energy standard of their property leaving them vulnerable to the cold. For example, someone who is over 65 and on the PSR because of their age, may well be in good health and have reasonable savings. They shouldn’t be defined as vulnerable to the cold. A lone parent with mental ill health who is a parent to a teenager with a learning disability, living in a rural off-gas village may be highly vulnerable.

NEA’s project ‘under one roof’ identified a number of conditions which are known to exacerbate the impacts of cold, namely:

- Respiratory disease
- Cardiovascular disease
- Mental ill health
- Other health conditions e.g. auto-immune conditions
- Those at risk from falls i.e. on their GPs frailty register

If these vulnerabilities are found in the thermally inefficient home of someone on a low income then they should be offered support. This shouldn’t be limited by a simple ‘cost-effectiveness’ calculation based on financial savings alone. The aim should be to improve their home to an EPC Band C in a way that delivers the best long-term carbon saving (see Q.8 below).

Future consumers also need to be considered in any fuel poverty strategy that seeks to address vulnerability. CSE’s study for Joseph Rowntree Foundation with British Gas\(^1\) examined the support

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needed for vulnerable consumers to benefit from their smart meters. The project findings point to the importance of an unrushed, step-by-step and face-to-face demonstration of IHD functions by the installer and for energy advice that takes into account the householder’s circumstances and the condition of their home. It also provides some evidence to support the case that vulnerable households should be offered a follow-up home visit which combines a further demonstration of IHD functions with more energy advice. However, the limited scale of the trial meant that no hard evidence was generated to show what energy or financial savings would result for households.

Smart meters will increase access to new services and tariffs (e.g. time of use tariffs, contracts for delivered warmth etc) which will reduce bills and possibly improve outcomes for householders. If a fuel poor household doesn’t have a smart meter or subsequently take-up the offer of services, then they may become more disadvantaged in the future. Certain vulnerability risk factors may worsen take-up of smart-meter enabled services: where possible these should be identified and addressed as part of a new strategy. These are likely to include poor credit status, private rental (particularly shared or short-term tenancies), having old inefficient appliances, low trust in the energy sector, and low digital capability.

BEIS must also ensure that Ofgem’s Draft Consumer Vulnerability is enacted fully. As highlighted in the strategy, a number of consumer groups reported that customer services are inconsistent across supply companies, with online or mobile phone application only companies creating particular barriers to certain consumers in vulnerable situation (e.g. those who are digitally excluded because they cannot afford a smartphone or the internet or who are uncomfortable using such means of communication)\(^\text{11}\).

7. **Do you agree with our proposal to create a fourth principle on aligning fuel poverty strategy with current and future Government priorities? Do you have views or evidence that may be useful in creating this principle?**

Yes. This is in line with our recommendation on their principles to the Committee on Fuel Poverty. As discussed above the Government has committed to delivering net zero by 2050. This requires a step change in the Government thinking as all policies across all departments need to be compatible with net zero. Domestic energy efficiency policy will be a key component in the delivery of our carbon targets. This has been noted by both the Committee on Climate Change\(^\text{12}\) and the BEIS select committee\(^\text{13}\) in their scrutiny of Government policy. In addition, the National Infrastructure Commission has said that the Government needs to facilitate thousands more energy efficiency installations per week in order to meet our targets.

CSE’s study for the Committee on Fuel Poverty examined the tensions between tackling fuel poverty, emissions and keeping the bills down. The report identified the potential to refocus and adjust a number of policies to deliver better outcomes, namely:

**Winter fuel payment (WFP):** Currently this policy makes an annual payment each winter to all people in receipt of a state pension. Adjustments to the WFP were made by introducing means testing, so that households only qualified for a payment each year if they either received Pension

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11 Citizens Advice (2019) Increasing numbers of small and newer energy suppliers delivering poor customer service
12 In their report on meeting a net zero target, the CCC articulate that domestic energy efficiency is crucial in meeting our carbon obligations [https://www.theccc.org.uk/publication/net-zero-the-uks-contribution-to-stopping-global-warming/](https://www.theccc.org.uk/publication/net-zero-the-uks-contribution-to-stopping-global-warming/)
13 Within their 2017/18 energy efficiency inquiry, the BEIS Select Committee recognised the importance of energy efficiency in meeting climate goals, [https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/1730/1730.pdf](https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/1730/1730.pdf)
Credit, or were in receipt of a state pension and had a limiting long term health condition or disability.

**Warm home discount scheme (WHD):** Currently this policy discounts £140 from the fuel bills of households where the bill payer is on Pension Credit (core group) or from households on a wider range of means test benefits, defined at the discretion of different energy companies, on a first come first served basis (broader group). Adjustments were made by removing the broader group and amending the core group eligibility criteria to include all those eligible for the Cold Weather Payment. It was assumed that the majority of eligible households qualified through an automated data matching process and payment.

**Energy Company Obligation (ECO):** The available funding for the ECO was increased by using some of the budget savings from reducing the scale of the WFP. This increased the total annual budget for the ECO from £670M per year to £1,473M per year. Following that, two options were explored for varying the eligibility criteria for the CERO and the HHCRRO elements of the ECO. (All housing tenures were eligible in both instances.)

- **ECO version 1:** Align the eligibility criteria for both the CERO and HHCRRO, so that all households living in homes rated in EPC bands E, F or G were eligible for either, in order to focus on the most inefficient dwellings in the stock.
- **ECO version 2** (targeted HHCRRO): Alter the eligibility of the CERO element so that only households living in homes rated in EPC bands E, F or G were eligible (as above), but target the eligibility of the HHCRRO to households living in homes rated in EPC bands D or below on a means tested benefit.

**Minimum energy efficiency standards in the PRS:** At the time of the study, a consultation was being conducted for this policy, with a proposal for Landlords to be obligated to spend up to £2,500 towards improve homes rated in EPC bands F or G up to an EPC Band E rating – the original legislation did not require landlords to pay any upfront costs. For the modelling, adjustments were made so that landlords were required to spend a maximum of £5,000 per dwelling to bring a dwelling that is below the minimum standards up to or as close as possible to the minimum SAP rating.

**PPM price cap and additional safeguard tariff:** At the time of modelling, a price cap was only in place for prepayment meters, but an additional safeguard tariff was introduced during the study for people in receipt of Pension Credit. However, when remodelling this policy, adjustments were made by adding an additional safeguard tariff which was extended to any household with someone on a means tested benefit and with someone who had a long term illness or disability, was in receipt of a state pension or with a child under the age of five years. The aim of this criteria was to ensure people who are both on low incomes and have an additional vulnerability (having a limiting long

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14 Qualification criteria for Cold Weather Payment include: Pension Credit; Income Support and income-based Jobseeker’s Allowance and have any of the following: a disability or pensioner premium, a child who is disabled, Child Tax Credit that includes a disability or severe disability element, a child under 5; Income-related Employment and Support Allowance (ESA) and have any of the following: a severe or enhanced disability premium, a pensioner premium, a child who is disabled, Child Tax Credit that includes a disability or severe disability element, a child under 5; Universal Credit, and not employed or self-employed and one of the following apply: limited capability for work amount (with or without a work-related activity amount), the disabled child amount in the UC claim, a child under 5.

15 Guaranteed element of Pension Credit, Income-based job seekers allowance, Income based Employment Support allowance, Income support, Child tax credits and/or working tax credits and/or Universal Credit with incomes below an equivalised threshold, dependent on household composition.
term health condition, being an older adult or with a young child) were by default on some of the lowest energy tariffs.

**Renewable Heat Incentive:** Currently this policy enables households who are able to afford the upfront costs to install low carbon heating technologies in their homes and receive annual payments over seven years to recuperate these costs. To a lesser extent, some social landlords have also used the RHI to help fund the installation of heating technologies on dwellings. Adjustments were made to the policy by assuming the successful implementation of a mechanism that allowed some lower income households in the private sector to benefit from the installation of low carbon heating systems through the RHI (an ‘assignment of rights’ amendment will become effective in the RHI from June 2018).

Our analysis showed that the current total annual spend of policies that install energy efficiency measures or low carbon technologies in dwellings was approximately £990M compared to a total annual spend of £1,825M on policies that provide a direct financial benefit. The policy adjustments reversed this balance: funding for policies installing energy efficiency measures increased to £1,758M while funding for fuel bill assistance policies reduced to £1,067M. This boosted the number of energy efficiency measures or low carbon technologies being installed from 3.2 million to 5.1 million, over five years. Table 1 below summarises these findings.

**Table 1: Summary of the impacts of modelling for the Committee on Fuel Poverty study examining policy tensions and possible improvements**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Current policies</th>
<th>Adjusted policies</th>
<th>Adjusted policies – targeted ECO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of households targeted by policies over five years</td>
<td>12.9M</td>
<td>10.8M</td>
<td>9.5M</td>
</tr>
<tr>
<td>Net bill reduction of households targeted by policies</td>
<td>£51</td>
<td>£161</td>
<td>£153</td>
</tr>
<tr>
<td>Estimated total number of fuel poor households after five years of policies</td>
<td>1.93</td>
<td>1.91</td>
<td>1.84</td>
</tr>
<tr>
<td>Estimated number of fuel poor households in F and G after five years of policies</td>
<td>287,000</td>
<td>198,000</td>
<td>237,000</td>
</tr>
<tr>
<td>Overall aggregate FP gap after five years of policies</td>
<td>£1,127M</td>
<td>£1,009M</td>
<td>£1,049M</td>
</tr>
<tr>
<td>Net carbon emission changes - 2017 electricity carbon factors</td>
<td>-2.3%</td>
<td>-4.0%</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Net carbon emission changes – decarbonising electricity carbon factors</td>
<td>-6.2%</td>
<td>-7.8%</td>
<td>-6.9%</td>
</tr>
<tr>
<td>Total annual policy spend on energy efficiency measures or low carbon technologies</td>
<td>£990M</td>
<td>£1,748M</td>
<td>£1,748M</td>
</tr>
<tr>
<td>Total annual policy spend on fuel bill assistance</td>
<td>£1,825M</td>
<td>£1,067M</td>
<td>£1,067M</td>
</tr>
<tr>
<td>Total number of energy efficiency measures or low carbon technologies installed over five years</td>
<td>3,240,000</td>
<td>5,060,000</td>
<td>4,750,000</td>
</tr>
</tbody>
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In future BEIS must do more to understand the carbon impacts of its policies relative to the fuel poverty benefits. Our work has shown that considerable resources already exist; however, the funding we have now must be spent in a way that helps the delivery of our future targets. For example, the installation of gas boilers as part of the ECO and Ofgem’s Fuel Poverty Network Extension Scheme (FPNES) are at odds with the future delivery of carbon targets. The grid intensity
of electricity has fallen to a level which means a heat pump may be lower carbon than a new gas boiler and combined with good insulation solutions could offer affordable heating solutions of those on low incomes.

Future policy impact assessment need a set of guiding principles:

a) How well does the policy target fuel poverty?
b) Does the policy significantly improve the properties EPC band and reduce bills
c) Does the policy reduce household carbon emissions
d) Does the policy reduce the costs that vulnerable householders place on the health service and social care
e) Does the intervention (i.e. measure) deliver cost-effective savings (when d is included with bill savings)

8. Would you suggest any other guiding strategic principles? Do you have any other views or evidence on the guiding principles?

The guiding principles aren’t currently aligned to complement each other (see Q.7 above). Fuel poverty programmes need to deal with those; in the worst fuel poverty; in the least efficient housing; and in a way that delivers the best carbon savings. Focussing only on those low income households that can afford the top-up costs for a gas boiler only delivers on cost-effectiveness. This is currently the paradigm for the ECO as the policy’s delivery is led by energy suppliers who will always seek to deliver their obligation at least cost.

A programme of activity that’s designed to tackle fuel poverty, emissions and holistically tackle the energy efficiency standards of a property would be better delivered by a programme that’s not driven purely by least cost delivery (often at the expense of quality and targeting). For example, Warm Front, a previously publicly funded policy, successfully delivered central heating at a national scale to fuel poor households.

The programme could appoint regional contractors or allow local authorities to procure their own contractors who then access funding. Whilst the programme could access match funding from the ECO, the key target should be to improve fuel poor households to an EPC C or above with no expectations for them to make a customer contribution.

We also recommended to the Committee on Fuel Poverty that the principle “Prepare the ground for future action” (which is used by the Committee on Climate Change) should be adopted. This requires that plans to meet near-term targets also make it easier to meet long-term targets. This is particularly relevant in the context of the need to decarbonise heat (which is arguably made harder by extending the gas network) and in incremental vs ‘in one go’ approaches to MEES (e.g. it might be better and more cost-effective to upgrade to C from F in one go than in 3 steps as currently allowed by the regulations). We believe this would be an appropriate and valuable policy to introduce into the Fuel Poverty Strategy.

9. Keeping in mind the strategy’s guiding principles, what policies might be included in a policy plan to improve energy efficiency for households in fuel poverty?

The targets for the fuel poverty programmes should align with those for energy efficiency across the housing stock. The MEES regulations (see Q.7 and Q.15) provide an opportunity to drive energy efficiency in the most inefficient sector of the housing stock. The cap on expenditure needs to be
raised to at least £5,000 to ensure that the necessary works are completed to make the home fit for human habitation.

The Government’s Clean Growth Strategy set an aspiration for all homes to be band C by 2035 which could be catalysed by a more ambitious better funded set of policies. Beyond 2035 we should be aiming for an EPC band of A for all homes by 2050 if we are to achieve our net zero carbon targets. The MEES regulations need to be adequately enforced to bring systematic improvements to the efficiency of our housing stock.

As outlined in our opening statement, the current level of resources are insufficient to achieve the identified fuel poverty targets. The Clean Growth Strategy proposals could realistically reduce this shortfall by £6.2 billion if implemented, but this would not provide the funding required to achieve the fuel poverty targets. The Committee on Fuel Poverty recommended a new ‘Clean Growth Fuel Poverty Challenge Fund’ to tackle this. To achieve the 2020 milestone, Treasury should allocate circa £1 billion of funding to run from 2019 to 2021. They also recommended that a further £1.8 billion should be allocated to run from 2022 to 2025 in order to achieve the 2025 milestone. CSE supports the implementation of the ‘Fuel Poverty Challenge Fund’.

10. What commitments, whether new or retained from the 2015 strategy, might supplement the policy plan in the updated strategy to improve energy efficiency for households in fuel poverty?

The Government must make the funding commitment needed to achieve its 2020, 2025 and 2030 fuel poverty targets. The cost-effectiveness principle isn’t acceptable when the wider health and social care costs are not being accounted for and all of the housing needs to be improved to tackle our climate emergency.

CSE recommends the following policies that could supplement the plan:

- No gas central heating to be installed in fuel poor homes from 2025 (as being planned for new homes from 2025) with a commitment to remove gas by 2035
- The Department for Work and Pensions (DWP) extend income maximisation measures (such as benefit entitlement checks) which can play a key role in addressing (and preventing) fuel poverty
- All CCGs should implement the NICE guideline on “Excess winter deaths and morbidity and the health risks associated with cold homes”.
- Encouraging network utilities (gas, electricity and water) to work towards a shared PSR and subsequent co-funded support services for vulnerable customers in their area
- Using powers in the Digital Economy Act to ensure that energy networks can better identify customers in receipt of certain benefits, reducing the cost of finding households that are eligible for schemes or PSR support
- Working with Ofgem to ensure lasting price protection for vulnerable customers that are most in need
- Undertaking research into the co-benefits of addressing fuel poverty, including the benefits to the NHS of taking action
- Developing capacity within local authorities in England and Wales to replicate good practices to enforce conditions in the private rented sector. This should include consideration of a nationwide landlord register so properties can be systematically identified.
11. Keeping in mind the strategy’s guiding principles, what policies might be included in a policy plan to improve partnership and learning on fuel poverty?

ECO Flex has enabled local authorities to set their own rules for eligibility. Whilst there is significant variance amongst local authorities in the eligibility criteria applied (ranging from wide to narrow inclusion), ECO Flex has re-engaged many local authorities and increased their capacity to work on household energy efficiency. CSE would suggest a detailed evaluation of ECO Flex to determine how well targeted it has been. We would recommend this covers:

- The theoretical overlap between published SOIs and fuel poverty.
- Direct research with householders supported to determine their actual fuel poverty status.
- Direct work with DWP to determine the overlap with claimed benefits for householders supported.
- Assessment of the quality and range of measures supported and the performance of installers involved.

CSE would suggest expanding local authority’s role through the provision of funding for energy efficiency measures (see Q.6). The funding for this programme needs to come from public finance, either as an infrastructure programme or as a top-up to their discretionary pot of the Better Care Fund. Both Scotland and Wales have publically funded schemes which have leveraged significant additional amounts of ECO funding.

12. What commitments, whether new or retained from the 2015 strategy, might supplement the policy plan in the updated strategy to improve partnership and learning on fuel poverty?

Local based activity to tackle fuel poverty is currently unevenly distributed across the UK. Our horizon scanning work for Western Power Distribution looked at the capacity to provide energy advice across their network, several rural counties didn’t have an advice agency or service (either based at a local authority or managed by an independent organisation).

To improve local partnerships locally across the UK, we would recommend a one stop shop for fuel poor cold homes is established and funded in every CCG area. This will improve the coverage of local advice provision, partnership working and learning and help us move away from short-term innovation focussed funding streams.

13. Keeping in mind the strategy’s guiding principles, what policies might be included in a policy plan to improve targeting for households in fuel poverty?

Targeting fuel poverty is critical to the successful delivery of policy; however, the more targeted a policy then the higher the search cost to identify the fuel poor. If BEIS targets a policy too narrowly then there is a risk that the eligible group becomes increasingly hard to reach and then more valuable to installers. For example, under CERT there was a Super Priority Group which became extremely sought-after and therefore valuable as suppliers came closer to missing their targets i.e. referrals were worth upwards of £250 each.

Data matching and sharing is absolutely essential to the future delivery of a targeted fuel poverty programme. The Digital Economy Act has enabled the Warm Home Discount scheme to be provided automatically to low income pensioners by allowing suppliers to work with government to carefully
identify those whose energy bills are putting them in financial difficulty. CSE would recommend further work in this area to expand the data matching process to automatically identify eligible households for the WHD broader group. In doing so the eligibility criteria could be tightened to ensure the policy is better targeted on fuel poverty, is delivered at a lower cost and matches the available funding from suppliers (as the currently eligible broad group would outstrip the total WHD policy budget).

Data matching to determine eligibility is not appropriate for the ECO since it is not appropriate to share data on vulnerable low income householders with a multitude of installers via a dozen energy suppliers (and their managing agents). Given the poor practice of some ECO installers and the potential for breaches of GDPR, it would be better for this data to be shared with a programme which is publicly funded and delivered by locally or regionally appointed contractors (see Q.8). To target this programme in a way that also fits with the vulnerability principle we would recommend:

- The creation of a single PSR, held centrally, which is used by all energy suppliers, electricity networks, gas networks and water networks.
- Data matching with DWP and supplier data and the central PSR to identify those who are eligible based on their income and benefits.
- Data matching with the existing EPC database to identify the most inefficient housing.
- Sharing this data with the publically funded programme to pre-qualify households who are most in need of support i.e. worst first.

The consultation specifically mentions a non-gas map showing the proximity of homes to a gas main with information on fuel poverty and energy efficiency. As discussed above, support for non-gas heating needs to be considered in the context of carbon savings (also see Q.15 below and the improvement of homes in rural areas).

14. What commitments, whether new or retained from the 2015 strategy, might supplement the policy plan in the updated strategy to improve targeting for households in fuel poverty?

See Q.7 and Q.13 above.

15. Keeping in mind the strategy’s guiding principles, what policies might be included in a policy plan to support households in fuel poverty in high cost homes?

Previous phases of the ECO have specifically targeted rural areas i.e. the Carbon Saving Community Obligation rural element. Fuel poor households in rural areas face key challenges as many of them are off-gas with gas currently being the cheapest heating fuel. Improving these homes is more expensive and to date the cost-effectiveness principle has limited the support available. Typically under the ECO clients have been able to get funding for loft insulation, cavity wall insulation, oil boilers (now withdrawn) and a small contribution to a heat pump. These measures are not sufficient to tackle fuel poverty and carbon emissions in rural areas.

Inefficient homes are disproportionately found in rural areas, and thus people living in these areas have an increased likelihood of living in a cold home16. Estimates by the Welsh Government suggest that 42% of homes in rural areas are in fuel poverty, compared to just 22% of those in urban areas17.

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Furthermore, analysing the most recent English Housing Survey data, NEA estimates that rural households are paying 55% more for their energy than urban areas, this is due to a combination of factors, however, in large part due to poor energy efficiency. Official statistics show that rural areas are five years behind their urban counterparts in the energy efficiency of homes. Rural areas also have a much greater proportion of EPC F and G rated households: 20% compared to around 2% for urban areas. In addition, around 90% of urban and 86% of semi-rural households have a gas connection compared to only 40% per cent of those in rural areas. Therefore, more isolated households may have higher levels and depth of fuel poverty due a higher proportion being off the gas grid.\(^\text{18}\)

Clearly in rural areas, where fuel poverty is arguably worst, a different policy response is needed in terms of measures and support provided. As discussed in Q.4 and Q.5 the worst-first and current bill savings cost-effectiveness principle are at odds with each other. The following theoretical case study provides an example of the type of approach that could be taken.

Warm Homes, a publically funded programme for energy efficiency, has identified a fuel poor household in an off-gas area. The elderly couple live in a two bedroomed EPC band F property with solid walls and a floor mounted oil boiler. One of the householders has COPD and their partner was admitted to hospital last year after a minor fall. There is a gas supply to the area and they could be connected under the FPNES.

Following an assessment of their property the scheme provides solid wall insulation and a heat pump. The property is also referred to the local Home Improvement Agency (as the local authority involvement means that the referral relationship exists) to fit grab rails and a stair lift. The measures result in the home no longer being fuel poor and the resulting carbon emissions are lower than a gas boiler in an un-insulated property. The householders COPD improves and the frequency of their GP visits reduces. Their partner doesn’t have a recurring fall which is a result of their home adaptations and a higher body temperature in winter.

The above case study does not examine the nuances of who funds the measures, where the savings are achieved and how they are measured. For example, did the home adaptations reduce the risk of falling or was it the warmer home? Whilst further research is needed to quantify savings to health and social care services, some CCGs and public health teams are funding energy efficiency measures as they value the health improvements and preventative benefits e.g. Dorset and Gloucestershire. Government needs to centrally fund and support the implementation of the NICE Guidance on cold homes (see Q.11) and further guidance should be given to local authorities and county councils to suggest they spend part of the Better Care Fund funding on energy efficiency measures.

16. What commitments, whether new or retained from the 2015 strategy, might supplement the policy plan in the updated strategy to support households in fuel poverty in high cost homes?

Our recommendations for refocussing existing spending have shown that the policy spend on energy efficiency can be increased from £990m to £1.7 billion (see Q.7). These changes can deliver significant benefits without further spend from Treasury.

\(^{18}\) NEA 2019, Fuel Poverty Strategy Consultation response
As discussed in Q.9, the MEES regulations need to be adequately enforced to bring systematic improvements to the efficiency of our housing stock.

Furthermore as mentioned in Q.9, we fully support the recommendation that the Committee on Fuel Poverty set out in their 2018 annual report for the introduction of a new Clean Growth ‘Fuel Poverty Challenge Fund’ by the end of 2019-20 providing necessary central investment to meet the near-term fuel poverty milestones.

17. Keeping in mind the strategy’s guiding principles, what policies might be included in a policy plan to improve support for low income households who are most at risk for adverse health outcomes from living in a cold home?

CSE delivers services for local authorities which are funded by public health teams, namely Warm and Safe Wiltshire and Healthy Homes Dorset. Healthy Homes Dorset provides advice and free insulation to householders who are vulnerable to the cold i.e. covering health and wider vulnerabilities (e.g. age and income). The programme has supported 1,741 clients and installed over 300 measures. Of those supported 1,332 had a recognised health condition. Whilst the majority of these householders also had low incomes, the schemes eligibility is focussed on a health need and leveraging the ECO where possible is seen as an additional benefit. BEIS could provide Dorset Council with additional funding to perform a detailed qualitative evaluation of the impacts of free insulation on health (and the associated savings to the NHS).

As discussed in Q.15 the NICE guidance should be implemented and supported via central funding. Alongside this all local authority should fulfil their duties under the Housing, Health and Safety Rating Scheme (HHSRS) and actively identify all properties that have a Category 1 hazard for excess cold. The regulations under MEES could be aligned with the HHSRS, so that there is only one form of compliance.

18. What commitments, whether new or retained from the 2015 strategy, might supplement the policy plan in the updated strategy to improve support for low income households who are most at risk for adverse health outcomes from living in a cold home?

See Q.18 above.

19. Keeping in mind the strategy’s guiding principles, what policies might be included in a policy plan to decrease the financial burden of energy bills for households in fuel poverty?

As discussed in Q.8, adjustments to the WFP should be made by introducing means testing, so that households only qualify for a payment each year if they either received Pension Credit, or are in receipt of a state pension and have a limiting long term health condition or disability. This expenditure is better focussed on fuel poverty.

As discussed in Q.13, CSE would recommend using the powers in the Digital Economy Act to further expand the data matching process to automatically identify eligible households for the WHD broader group. The financial savings from reducing the costs of identifying beneficiaries could be used to fund additional advice and debt support via the Industry Initiatives aspect of the policy.
20. What commitments, whether new or retained from the 2015 strategy, might supplement the policy plan in the updated strategy to decrease the financial burden of energy bills for households in fuel poverty?

The WHD scheme needs to be extended beyond 2021. This has been a key policy in providing short-term support to low income householders.

Another key issue is the ongoing under-claiming of benefits which is a key driver for energy debt and energy affordability issues. Figures from the Department for Work and Pensions (DWP) reveal that 40% of families in Great Britain who are eligible for pension credit failed to claim the benefit during the 2016/17 tax year, leaving them missing out on an average of £2,500 for the year.

Our advisors regularly provide householders with information on disability benefit premiums to which they are entitled but not automatically given access to. These premiums often provide an additional £4,000 to £6,000 of income per year. Take up of benefits is affected by people’s lack of awareness, their ability to complete the forms and a perceived stigma of receiving benefits. Our advisors often have to support people through the process as they do not have the financial literacy to complete the process. In some cases their vulnerabilities mean they don’t have the mental bandwidth to engage with the complexities involved. Properly funded local advice provision (see Q.26) could address this issue and ensure the vulnerability principle is also upheld.

21. Keeping in mind the strategy’s guiding principles, what policies might be included in a policy plan to create a fairer energy market for households in fuel poverty?

The future energy system needs to be smart and fair i.e. ‘no one left behind’. The changing energy system will bring with it new services and opportunities and it’s essential that fuel poor/vulnerable householders are able to take part in the market and access these. CSE is currently conducting a new research programme, Smart and Fair?, funded by WPD and SSEN. Our primary objective in this first phase of Smart and Fair? (June 2019 to January 2020) is to develop an analytical framework and methodology that will enable the potential social impacts of a wide range of market developments to be characterised and assessed on a consistent basis.

Such a framework can then inform strategies to mitigate negative impacts, from improved market and regulatory design to interventions to help vulnerable consumers overcome or be protected from negative impacts. These will enhance the prospect of an energy system transition which is both smart and fair.

Before we make any policy proposals we outline briefly below what ‘no one left behind’ means.

While the ‘no one left behind’ principle implies a concern about everyone, its focus in practice should tend to be on those ‘ones’ who (a) have only limited capacity to ‘keep up’ and/or (b) who risk suffering disproportionate detriment if they are left behind.

There are different aspects to each of these two categories which are examined below. In terms of membership, there is likely to be a significant overlap between the categories as both are drawn principally from consumers who broadly fit existing definitions of ‘vulnerability’ within regulatory thinking.

The questions raised by the first category – those with only limited capacity to ‘keep up’ – are: What is involved in ‘keeping up’? And what capabilities does keeping up require?
In the context of a smarter energy future, ‘keeping up’ would effectively mean participating in ‘value earning’ smart energy activities, such as:

- Being rewarded (through time of use pricing) for flexing electricity demand to avoid peaks and/or match the output of local renewable generation.
- Reducing use of the electricity system through installing demand reducing equipment or ‘behind the meter’ electricity generation and storage.
- Becoming involved in ‘local’ or peer-to-peer energy supply (linked to local generation and potentially in future local green gas production) to secure lower than typical retail prices.

Each of these requires consumers to have:

**The capacity to participate** – which depends on a customer having the intellectual capability to understand which technologies or services will be of benefit to them, the financial capability to buy or borrow or sign up for the right kit or services for their circumstances to enable participation, and the technical capability to use it appropriately to optimise the rewards.

**The opportunity to participate** – which may depend on (a) whether the part of the system to which the consumer is connected has a need for their participation and, more importantly, (b) on a service provider actually offering them a service so they can participate in the first place.

**The willingness to take the risks involved in participating** – which can be technical (that the typically innovative equipment or service will not deliver the value it has promised) and financial (that the markets won’t actually reward the action to the level anticipated or the service provider will fail to deliver a decent service).

There are many households who are limited in all of these aspects of participation. This includes: those on low income with little access to capital or credit and an (appropriate) aversion to taking risks; those with limited understanding or capability to understand the emerging opportunities; and those (e.g. ‘all day at home’ pensioner households) with ‘non-peaky’ demand profiles who aren’t the target market for new services.

So are there ways to increase the capacities and opportunities of such households to participate?

The answer to this is almost certainly ‘yes’. One can easily envisage a programme of support for participation amongst specific vulnerable consumer groups. Which leads to the question of whether such a programme – potentially provided within RIIO-2 by network companies – should be treated as a system cost associated with putting this ‘no one left behind’ principle into practice. If so, the costs of such ‘participation support’ would be socialised across different system actors and treated as a legitimate part of any regulatory settlement.

But – what should be done about those who still are unable or unwilling to participate in ‘keeping up’?

This links to the second category of ‘ones’ in our focus: those who are at risk of disproportionate detriment if (or when) they are ‘left behind’.

What then are the issues associated with being left behind that the principle is seeking to avoid?

Aside from not participating and so losing access to the benefits of ‘keeping up’, being left behind would involve:
• Paying system costs associated with benefits available to others but which you are unable to access (e.g. for the network reinforcement needed because Tesla EV owners want to charge at home when they want rather than when and where would be optimal for the system) and which you will never be able to access (because, like 55% of the lowest income quintile households, you don’t own a car).

• Not being offered a time of use tariff that rewards you appropriately for your existing ‘system friendly’ behaviour. For example, you are at home all day and already do your washing when it’s sunny, so you’re not in the target market for demand flexibility services and the systems benefits of your current behaviour are captured by others.

• Paying an increasing proportion of core electricity or gas network costs as other consumers install equipment which enables them to use the network less (e.g. ‘behind the meter’ storage) or not at all (by shifting from a gas boiler to a heat pump or to a communal heat network).

The practical focus of the ‘no one left behind’ principle for this category of ‘ones’ would therefore be to find ways to reduce these (and other) risks of detriment by, for example, ensuring that:

• Network charging fairly reflects both what (and who) is causing network cost pressures and the option value of having the network available even if rarely used.

• Service providers – including energy suppliers – are kept to their licence responsibility to ‘know your customer and treat them fairly’ and, more specifically, to make sure they are offering their customers tariffs and services which suit their circumstances and which pass on the value of system benefits that their behaviour provides.

It should also involve exploring whether and how those who are unable to participate might be protected from carrying the costs of the transition to a smarter energy system.

The fuel poverty strategy and shaping of future BEIS policy has a role to play in ensuring that ‘no one is left behind’. In particular vulnerable households receiving smart meters should receive face-to-face advice (as identified in Q.6). Furthermore, as services develop BEIS and Ofgem should monitor the market to ensure that no vulnerable group of low income households is disproportionally burdened or excluded. If they are then policy intervention is needed to ensure that all gain fair access to our future energy market.

22. What commitments, whether new or retained from the 2015 strategy, might supplement the policy plan in the updated strategy to create a fairer energy market for households in fuel poverty?

See Q.20 above.

23. Keeping in mind the strategy's guiding principles, what policies might be included in a policy plan to improve the evidence base on fuel poverty?

In order to ensure that the evidence base can be grown and become more useful, we recommend that BEIS fund research into the following:
• Fully monetising the benefits of meeting the fuel poverty targets, especially the health benefits, which can subsequently be included into future impact assessments. This should include the costs to the NHS of fuel poverty.
• A review of which energy efficiency schemes (particularly across the other devolved nations) help deliver fuel poverty targets most efficiently and the effectiveness of the current ECO of reaching the worst affected households first.
• An assessment of barriers to adopting support provided by current scheme.
• An assessment of the capacity of local authorities to undertake their role in ECO and PRS MEES.
• An assessment of the extent to which suppliers recover costs, and if there are adverse distributional impacts as to how they do so.
• Explore the extent to which the new smart energy world is an opportunity or a risk to the fuel poverty strategy
• Explore the relationship between mortality and morbidity of cold homes

24. What commitments, whether new or retained from the 2015 strategy, might supplement the policy plan in the updated strategy to improve the evidence base on fuel poverty?

See Q.25 below.

25. Are existing arrangements sufficient to meet our commitments to review and scrutinise Government action on fuel poverty?

CSE does not believe that existing arrangements are sufficient to meet the commitments to review and scrutinise Government action on fuel poverty. The following are required:

• Renewed analysis of the distributional impacts of energy policies on bills.
• Future policy impact assessments that also assess the co-benefits of energy and carbon savings and account for any health benefits.
• Ministerial focus on fuel poverty with an annual debate on fuel poverty in Parliament which is held on a set date each year (enabling stakeholders to focus attention on this).
• Further funding for fuel poverty alleviation.

26. Do you have any further views or evidence on how the 2015 fuel poverty strategy should be updated?

The main area that the strategy has failed to address is the lack of home energy advice provision in England. The Energy Saving Advice Service (ESAS), provided by the Energy Saving Trust, has now ceased to operate a telephone service and all support is now web based. Before the line closed it was only able to provide basic phone advice and ESAS regularly referred householders to local services who could offer more in-depth knowledge and face-to-face support, such as CSE’s Home Energy Team.

Online advice provision isn’t a sufficient method of support for vulnerable householders. According to Ofcom, around 13% of adults in the UK do not currently go online and these customers are at risk of being excluded from cheaper deals but also other services that may be beneficial to them. This
includes information regarding the WHD, PSR and ECO. As mentioned in Q.6, our research for Joseph Rowntree Foundation highlights the value of face-to-face advice for vulnerable householders, thus enabling them to access services and make the most of new technology. For advice provision to be aligned with the vulnerability principle discussed in Q.7 then it needs to be locally delivered and available in person (as required).

As discussed in Q.15 the NICE guidance should be implemented and supported via central funding. Each CCG should have a one stop shop that provides independent advice and support to fuel poor householders living in cold homes. This would help address the ‘digital divide’ for vulnerable customers, foster local partnerships and support any nationally funded energy efficiency programme that’s locally delivered.