

CSE's response to the Hills Review Interim Report



3 St Peter's Court
Bedminster Parade
Bristol BS3 4AQ

0117 934 1400
www.cse.org.uk
info@cse.org.uk

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CSE endorses the charter of the End Fuel Poverty Coalition and the findings of the research paper provided for Consumer Focus by Richard Moore. We re-emphasise the main statements of the charter and provide some attached comments below.

CSE is pleased that the Hills review acknowledges that fuel poverty is a problem in its own right, rather than an aspect of poverty in general. Our recent work¹ with Donald Hirsch for Consumer Focus analysing actual energy consumption relative to need showed that under-consumption was more closely linked to fuel poverty than overall poverty; according to a comparison with income poverty and income adequacy.

We welcome the review's conclusion that the objective within the Warm Homes and Energy Conservation Act 2000 is still robust. The Act defined a person in fuel poverty as one who is *'living on a lower income in a home which cannot be kept warm at a reasonable cost'*. It is exactly these people who need assistance from fuel poverty schemes.

Fuel poverty in the UK is currently measured by considering the proportion of income a household **needs**² to spend on energy in order to heat their home adequately. Using a theoretical measure of this type, rather than the amount people actually do spend, provides a valuable measure of a household's resources relative to need (an indicator of "capabilities"). It is unaffected by the actual decisions households make, which can be influenced by individual tastes and priorities. We consider the existing definition usefully combines income, energy requirements and energy costs, as well as assessing households' 'need to spend' rather than 'actual expenditure'.

However, we recognise that the definition adopted in the UK Fuel Poverty Strategy leads to a number of difficulties. These include:

- Changes in fuel prices have a disproportionate effect on the apparent number of households in fuel poverty, as highlighted by the interim report
- It does not distinguish households with 'reasonable incomes' but living in large inefficient homes from those with much lower incomes living in small inefficient homes. Arguably, the former have a much greater opportunity to improve their circumstances.
- It is difficult to track the impact of energy efficiency schemes on low-income households' fuel costs.
- The treatment of housing costs and household size in the calculation of income does not adequately reflect the actual resources households have to spend on fuel.

We therefore welcome the proposals to remove housing costs from income and to adjust income measurement to take account of household size. We consider an After Housing Costs measure of income better reflects the money households have available to spend on fuel. In addition we believe the proposed 'fuel poverty gap' represents a valuable supplementary indicator of fuel poverty. It assesses the extent to which individual households are affected by fuel poverty and the depth of fuel poverty experienced by all fuel-poor households.

¹ Preston I., White V., Hirsch D. Understanding Energy Expenditure, Consumer Focus 2011

² The definition of fuel poverty is based on a theoretical requirement for a household to spend more than 10% of its income on all fuel to heat its home to an adequate standard of warmth. This is generally defined as 21°C in the living room and 18°C in other occupied rooms.

We broadly accept the proposal to set an income threshold based on the DWP definition of poverty (60 per cent of median income after housing costs and adjusted for household size and composition). We accept the rationale for removing fuel costs from income.

We welcome the report's recognition that certain groups are particularly vulnerable to fuel poverty due to for example old age, a pre-existing health condition or disability. We note that these 'vulnerabilities' are not easy to capture within a fuel poverty definition. However, we hope the final report will make clear recommendations for the effective targeting of fuel poverty policies on these groups.

We are concerned about the proposal to define 'reasonable fuel costs' as those below the median. The relatively high median fuel costs in England would still be unaffordable to many low-income households. We therefore consider this does not adequately describe the 'fuel poor population' and potentially could have some perverse effects on policies to eliminate fuel poverty and reduce carbon emissions. For example:

- It will exclude some low-income households who live in comparatively energy efficient homes but are still struggling to pay their fuel bills, such as people with high energy needs due to old age or pre-existing health conditions. While the potential for energy efficiency improvements may be limited, these households still require income and fuel price measures, as they would have under the existing definition.
- It will also exclude some low-income households for whom the median fuel bill cost still represents an unaffordable amount. This is because the poor condition of the English housing stock creates a relatively high median. Such households, currently struggling to afford their fuel costs, *would* benefit from energy efficiency measures.
- It will potentially put the Government's fuel poverty and carbon targets in conflict with each other. This is because policies to improve the efficiency (and therefore reduce the carbon emissions) of higher income households will have the effect of lowering the national median fuel bill, and therefore increase the probability of low-income households being classed as 'fuel poor'.
- It will make it much more difficult to eliminate fuel poverty through improving energy efficiency standards. While theoretically possible to focus extensive energy efficiency activity exclusively on certain low-income households, in reality a constantly shifting median fuel expenditure threshold will make eradication almost unachievable.
- In contrast, it will make it possible to eliminate fuel poverty through extensive income measures (while recognising this also represents a major challenge). Since the Government has a statutory duty to eradicate fuel poverty, the proposed indicator appears to favour tackling fuel poverty through income measures rather than energy efficiency measures. While income measures are important, this should not be at the expense of under-valuing the contribution of energy efficiency measures.

We firmly believe that the proposed definition should be consistent with the target to eradicate fuel poverty by 2016³, as set out in the Warm Homes and Energy Conservation Act. A definition that appears to make fuel poverty elimination extremely difficult is likely to lead to policy inertia.

We also consider the definition should recognise the central role of energy efficiency in providing a sustainable and long-term solution to fuel poverty, while also recognising the importance of income and fuel price measures.

³ The Government has a statutory duty to eradicate fuel poverty, as far as reasonably practicable, by 2016.

CSE considers an alternative approach to setting the energy costs threshold is one based on relating the total fuel requirement of a home to the fuel requirements of the most energy efficient homes. This would root the definition in a meaningful view about the level of energy efficiency that is desirable and reasonable for someone on a low income. This relative measure would have the benefit that as overall standards in the housing stock improve, the threshold for a reasonable standard of energy efficiency would also be raised. In addition, this threshold would create a definition of fuel poverty that makes its eradication feasible, given sufficient political will and resources.

In conclusion, the CSE would urge the review team to re-visit its definition of 'reasonable fuel costs'. We consider our alternative approach has considerable merit. We would welcome the opportunity to discuss and develop a more precise methodology for defining our approach.

Energy cost threshold

With regard to consultation question: Do you have any views on the thresholds the review has used for the preferred indicator, as set out in Chapter 7?

Whilst we generally endorse use of the proposed income threshold, we have some strong reservations concerning the energy costs threshold. These concerns can be summarised by the following points:

- Using a median value of energy costs makes the elimination of fuel poverty (which the UK governments has a statutory duty to eradicate by 2016) almost impossible to practically achieve; as the threshold is relative to the whole population there will always be 50% of the population with energy costs higher than the median. Therefore, the only way to eliminate fuel poverty in this instance is to increase everyone's incomes above the income threshold, an option which seems to be more of a theoretical concept than an achievable reality.
- However, at the same time, the setting of the threshold at the median also creates an energy bill threshold well above what is affordable for many households, thereby excluding a section of the population that are already struggling to pay their fuel bills but would not be classed as fuel poor.
- Equivalisation of the energy bills for this threshold is unnecessary as the energy models used to calculate energy performance of dwellings already takes into account the occupancy information.

CSE endorsed an alternative threshold based on the unit fuel costs per total area of the dwelling as outlined in the response from the End Fuel Poverty Coalition charter. This concept is explored in more detail below.

Analysis of current and proposed fuel poverty definitions

Alongside members of the End Fuel Poverty Coalition, CSE has investigated several alternative energy cost thresholds and believe that a threshold based on the unit fuel costs (£/m²) is much more satisfactory way of assessing who is struggling to afford energy bills and allow better targeting of measures to alleviate this situation.

CSE have analysed different proposed definitions using the English Housing Survey (EHS) 2009 to examine the influence on total fuel poverty as well as the effect on household compositions, income deciles and households living in dwellings of differing energy efficiency. The four definitions examined are the current 10% of income method, the Hills Review proposed 'low income/high costs', a low income method using a cost threshold of 60% of the median unit fuel costs (£9.19/m²) and a low income method using a cost

threshold that is boundary between median unit fuel costs of C and D rated dwellings (£13.64/m²)⁴. The affected numbers from these methods are shown in Tables 1 to 3 below, and percentage in each category and of total fuel poor are shown in Figures 1 to 6 below.

With the current methodology, over 60% of G rated dwellings are in fuel poverty and the trend is for higher proportions of fuel poverty in progressively poorer energy performance of dwellings (Figure 1). With the three newly proposed definitions this trend is reduced somewhat. However, whilst the unit fuel cost methods are still identifying similar numbers of fuel poor in E-G rated properties as the low income/high costs definition, they increase the numbers of fuel poor in the higher rated properties. In addition, all three of the newly proposed methods shift most of the fuel poor to the bottom three deciles. However, methods using the unit fuel bill thresholds identify the majority of people (56-97%) in these three deciles as fuel poor (Table 3 and Figures 5 and 6).

Several conclusions can be drawn from this analysis. Firstly, that the current definition includes a number of more wealthy people in the least efficient homes that are not necessarily struggling with affordability. Whilst the suggested definition proposed by the Hills team goes some way towards rectifying this, unit fuel cost thresholds accurately pinpoint the poorest people who are least able to afford bills and therefore experience the most severe repercussion of unaffordable bills. Secondly, a unit cost threshold is also better at identifying those on low incomes in more efficient homes that are still struggling to pay their fuel bills.

Using a definition based on a unit fuel cost threshold could therefore work well alongside a policy like the ECO. If designed and implemented successfully, it could predominantly focus on improving conditions of the vulnerable and those definitely unable to pay (i.e. the fuel poor identified by a fuel poverty methodology using unit energy cost threshold), whilst policies such as the Green Deal can be taken up by people less averse to financial risk (i.e. those people not in the bottom three income deciles) in order to improve the housing stock.

Finally, looking at differences in household types (Table 2 and Figures 3 and 4), in both the current methodology and the proposed Hills review, households comprised of over 60 year olds (couples and single adults) make up the most significant number of fuel poor (current 10% definition = 1.9M, 49.1%; low income/high costs = 1.4M, 51.2%). With the unit fuel cost thresholds, the substantial shift is towards households with children and a reduction in the total number of elderly fuel poor, particularly single over 60s. In the two newly proposed methods there are around 300-400,000 less fuel poor in the over 60s, but around ~500,000 new fuel poor lone parent households and ~900,000 more couples with children households. ~50% of lone parents households would be fuel poor under these methods, and ~25% of households comprised of couples with children. In the current methodology and the Hills Review, these proportions are only 21% and 8%, and 25% and 4%.

This shift is a positive change, and reinforces the concept that a unit fuel cost method will better identify those properties that have higher than acceptable energy bills and lack of affordability. The reduction in elderly households from the total fuel poor is due to those household having reasonable costs per m². The problem for these cases is likely to be more related with under-occupation than fuel poverty, and these people would benefit more from financial measure's (e.g. WFP or CWP) than from energy efficiency improvements.

⁴ These methods are prescribed in more detail in Dr Richard Moore's report for Consumer Focus submitted as a separate response to the Hills Review Interim Report.

Table 1 – Number of households in fuel poverty by different fuel poverty definitions and SAP band

SAP Band	Fuel Poverty Status	Number of households (1000s)			SAP C-D boundary median fuel bill (£/m2)
		Current 10% Definition (full income)	Hills Review Proposed	60% median fuel bill (£/m2)	
A-B	Not Fuel Poor	123	129	80	110
	Fuel Poor	6	-	48	18
C	Not Fuel Poor	2,673	2,707	1,955	2,364
	Fuel Poor	168	134	885	477
D	Not Fuel Poor	7,110	7,354	5,966	6,493
	Fuel Poor	1,023	779	2,168	1,641
E	Not Fuel Poor	5,855	6,282	5,618	5,849
	Fuel Poor	1,475	1,049	1,712	1,481
F	Not Fuel Poor	1,560	1,856	1,825	1,873
	Fuel Poor	856	559	590	543
G	Not Fuel Poor	250	492	479	480
	Fuel Poor	436	195	207	206
TOTAL	Not Fuel Poor	17,571	18,819	15,924	17,169
	Fuel Poor	3,964	2,716	5,611	4,366

Table 2 – Number of households in fuel poverty by different fuel poverty definitions and household type

Household composition	Fuel poverty status	Number of households (1000s)			SAP C-D boundary median fuel bill (£/m2)
		Current 10% definition (full income)	Hills Review proposed	60% median fuel bill (£/m2)	
Couple, no child(ren) under 60	Not fuel poor	3,692	3,801	3,455	3,564
	Fuel poor	281	172	518	408
Couple, no child(ren) aged 60 or over	Not fuel poor	2,874	3,214	2,833	3,014
	Fuel poor	733	394	775	594
Couple with child(ren)	Not fuel poor	4,345	4,510	3,352	3,613
	Fuel poor	381	216	1,375	1,114
Lone parent with child(ren)	Not fuel poor	1,341	1,273	624	851
	Fuel poor	347	415	1,064	837
Other multi-person households	Not fuel poor	1,252	1,399	1,025	1,123
	Fuel poor	275	128	502	404
One person under 60	Not fuel poor	2,179	2,105	2,024	2,268
	Fuel poor	763	836	917	673
One person aged 60 or over	Not fuel poor	1,888	2,517	2,611	2,736
	Fuel poor	1,184	555	460	335
TOTAL	Not fuel poor	17,571	18,819	15,924	17,169
	Fuel poor	3,964	2,716	5,611	4,366

Table 3 – Number of households in fuel poverty by different fuel poverty definitions and household type

AHC equivalised income decile	Fuel Poverty Status	Number of households (1000s)			
		Current 10% definition (full income)	Hills Review proposed definition	60% median unit fuel bill (£/m2)	SAP C-D boundary median fuel bill (£/m2)
1	Not fuel poor	836	1,112	65	502
	Fuel poor	1,152	877	1,924	1,486
2	Not fuel poor	1,216	1,258	161	527
	Fuel poor	744	702	1,799	1,433
3	Not fuel poor	1,553	1,364	613	1,014
	Fuel poor	756	946	1,697	1,295
4	Not fuel poor	1,618	1,933	1,958	1,985
	Fuel poor	458	142	117	90
5	Not fuel poor	1,697	2,067	2,060	2,063
	Fuel poor	391	22	29	25
6	Not fuel poor	1,926	2,151	2,140	2,142
	Fuel poor	236	10	22	19
7	Not fuel poor	1,996	2,112	2,110	2,114
	Fuel poor	126	10	12	8
8	Not fuel poor	1,993	2,058	2,054	2,056
	Fuel poor	71	6	10	8
9	Not fuel poor	2,276	2,294	2,294	2,295
	Fuel poor	19	1	1	-
10	Not fuel poor	2,461	2,470	2,470	2,470
	Fuel poor	11	1	1	1
TOTAL	Not fuel poor	17,571	18,819	15,924	17,169
	Fuel poor	3,964	2,716	5,611	4,366

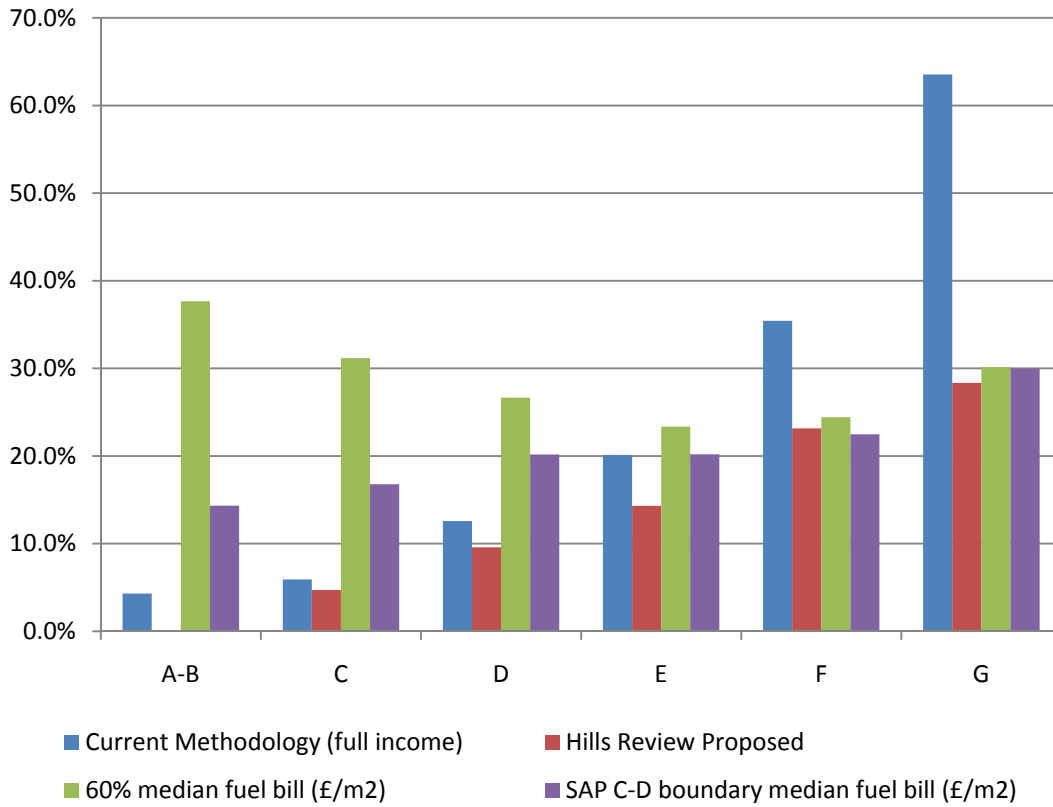


Figure 1 – Percentage in each SAP band that are fuel for four definitions of fuel poverty

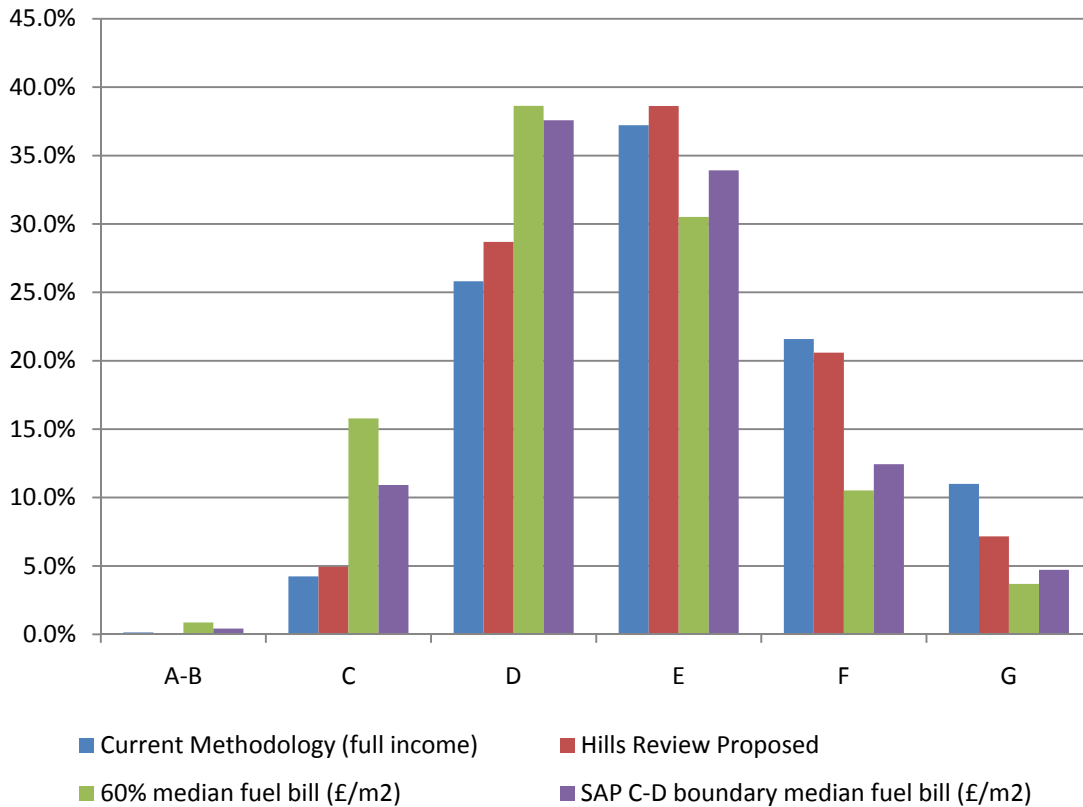


Figure 2 – Percentage of total fuel poor by SAP band for four definitions of fuel poverty

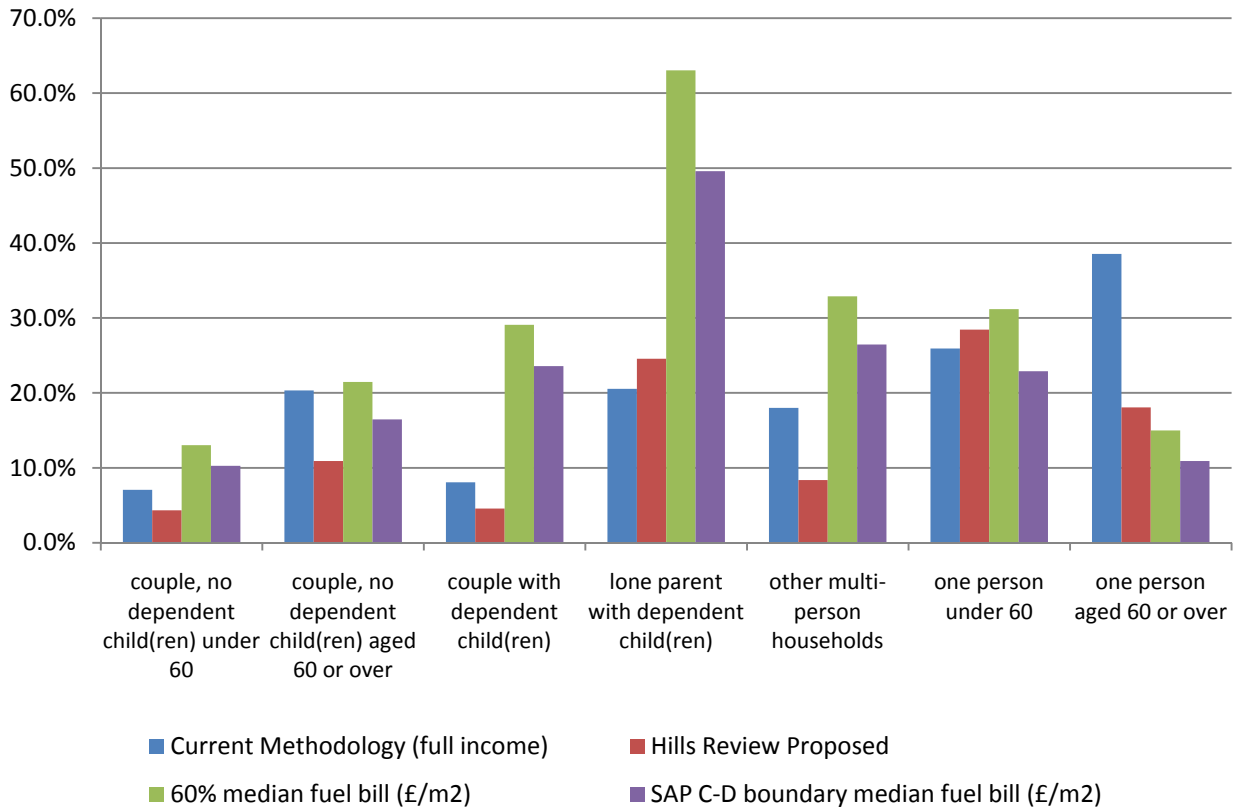


Figure 3 – Percentage in each household type that are fuel poor for four definitions of fuel poverty

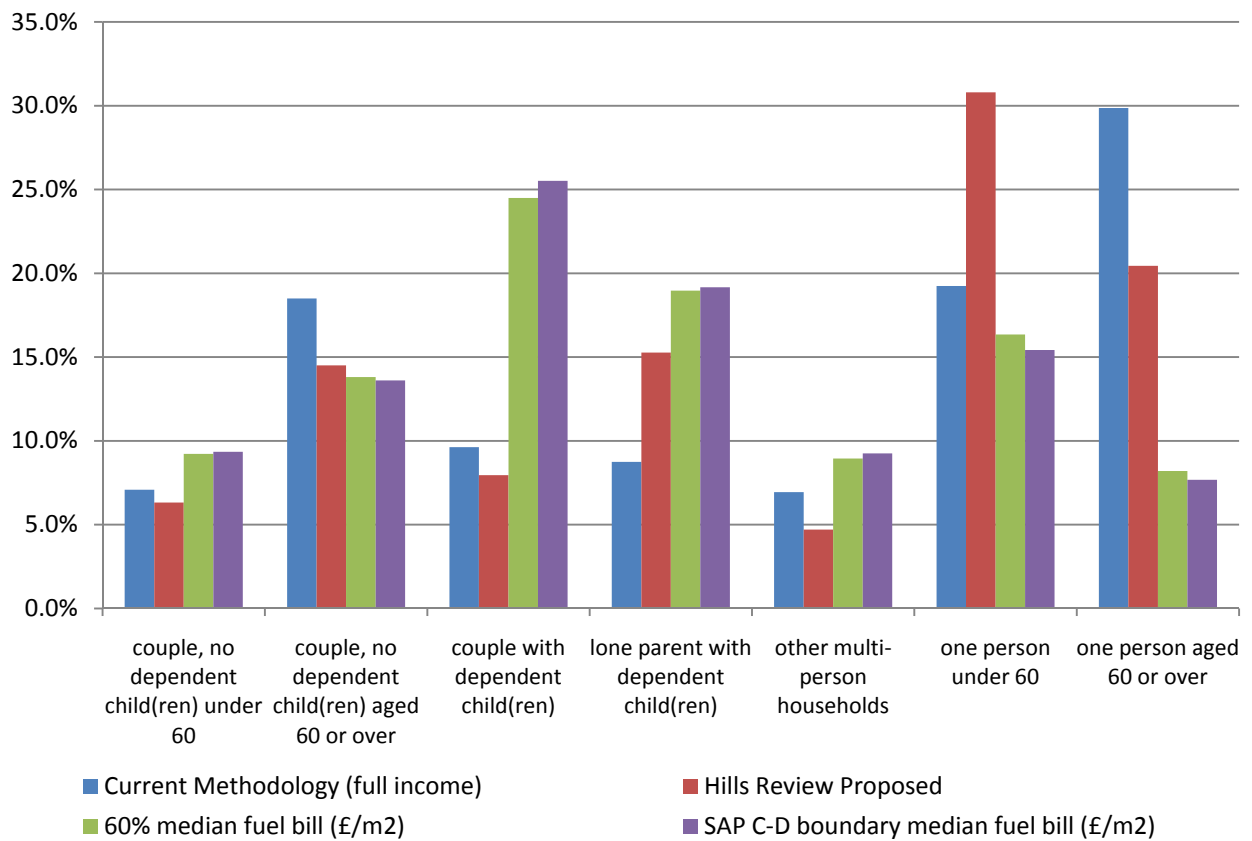


Figure 4 – Percentage of total fuel poor by household type for four definitions of fuel poverty

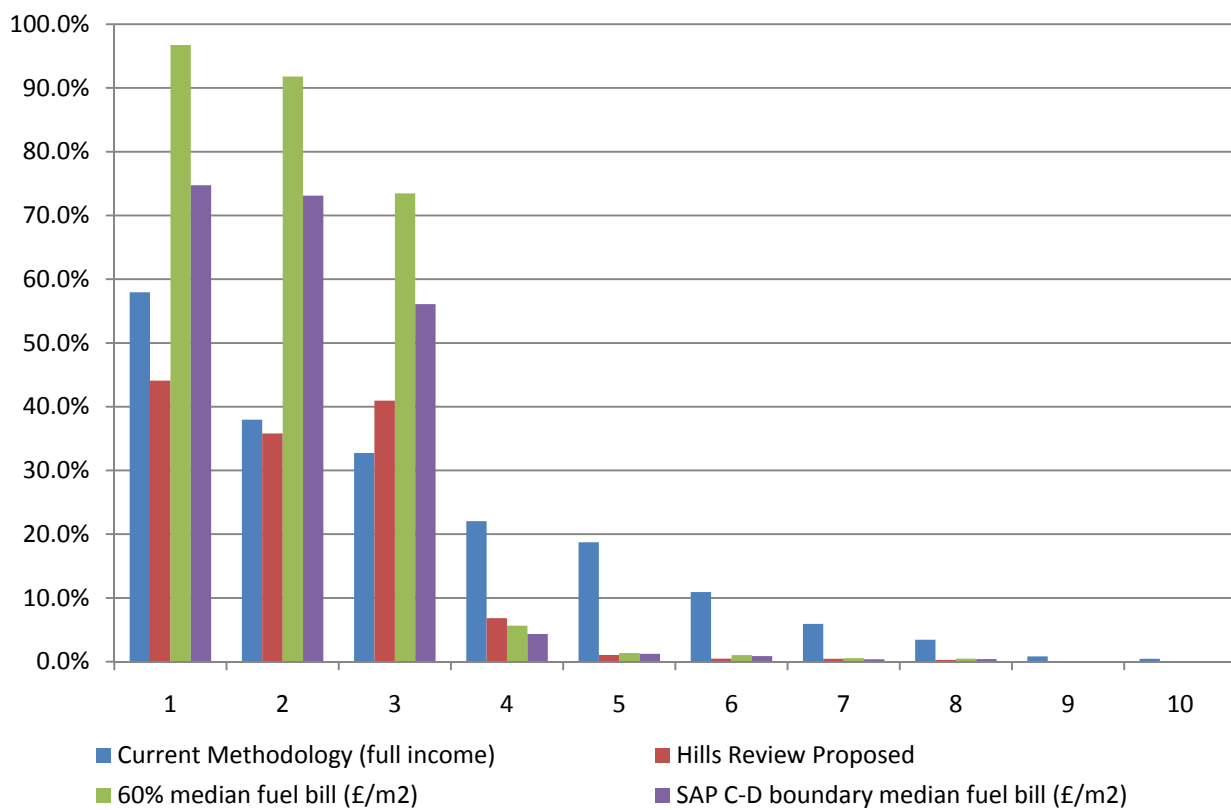


Figure 5 – Percentage in each income decile that are fuel poor for four definitions of fuel poverty

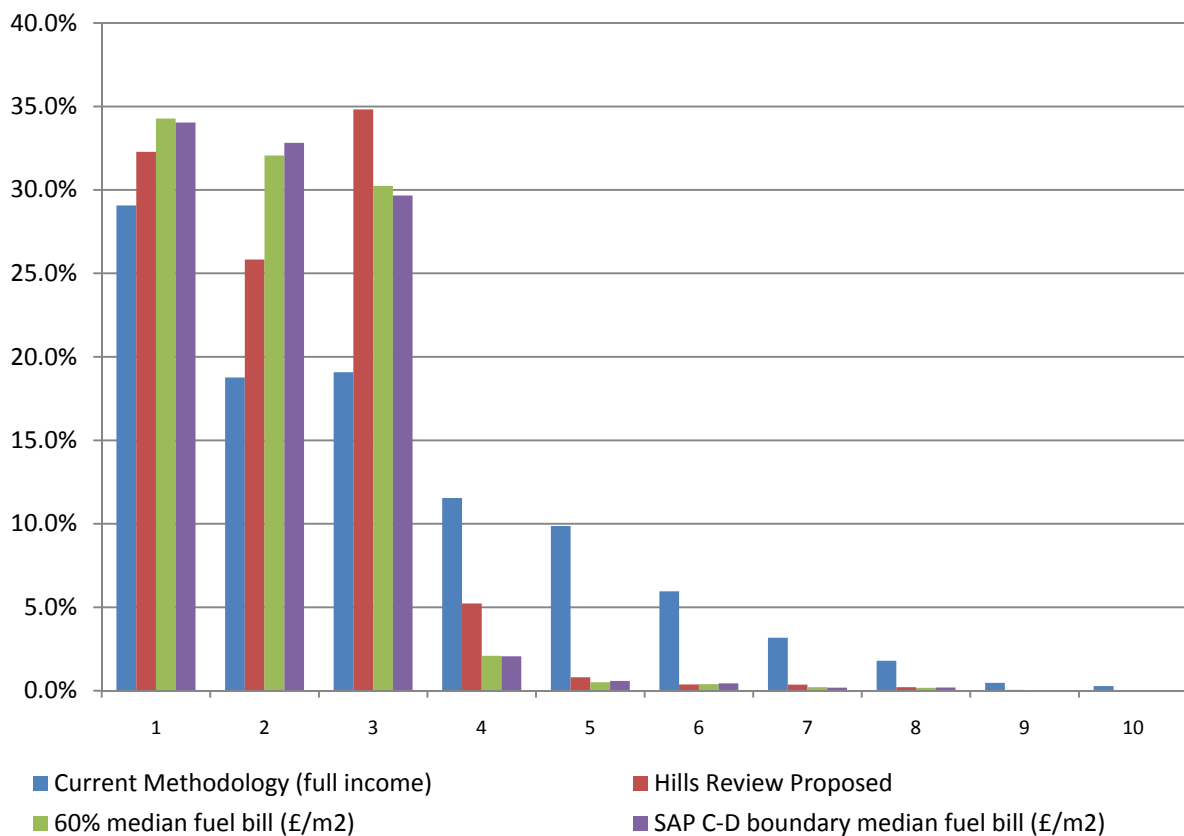


Figure 6 – Percentage of total fuel poor by income decile for four definitions of fuel poverty