

Sustainability Committee

SC(3)-22-09 (p1): 26 November 2009

Evidence Paper for Sustainability Committee Inquiry into Fuel Poverty

1. Introduction

On 9 November 2009, the Welsh Assembly Government published a consultation on a revised Fuel Poverty Strategy. The consultation closes at the start of January 2010.

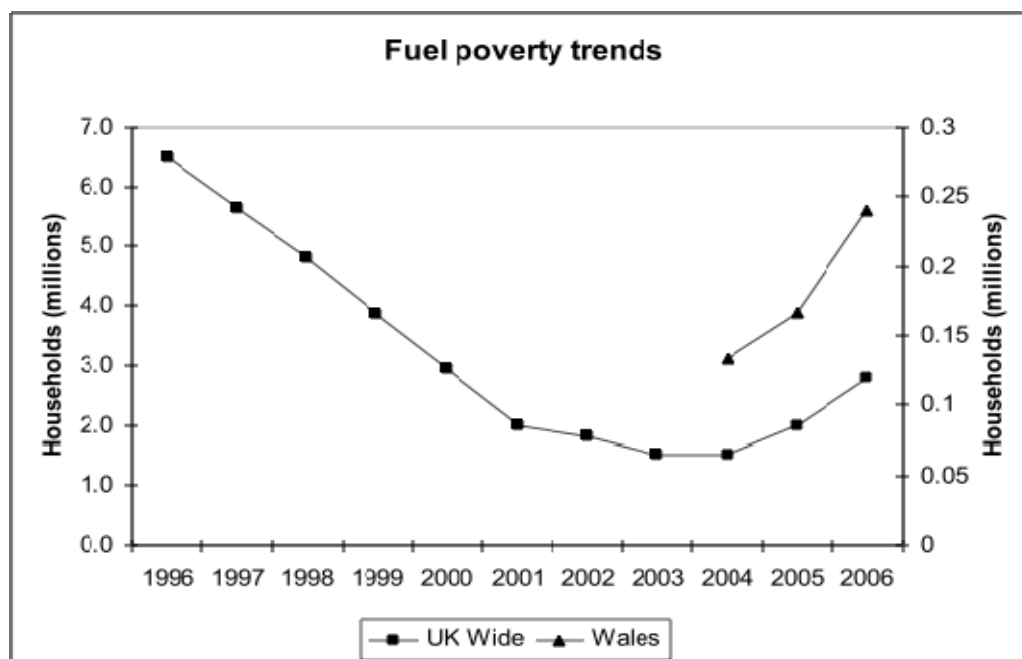
A copy of the consultation document is attached as an Annex to this paper. The consultation provides an assessment of the current position on fuel poverty in Wales and the actions proposed to address it.

This paper focuses on the action being taken across the Assembly Government aimed at alleviating fuel poverty. Further detail on definitions, general background and fuel poverty trends are set out in the consultation document in the Annex.

2. Fuel Poverty in Wales

The Warm Homes and Energy Conservation Act was passed in 2000, and Wales' first Fuel Poverty Strategy was published in 2003. Until 2004, good progress was made in tackling fuel poverty.

Chart 1: Fuel poverty decreased until 2004, but has risen since



Sources: *The UK Fuel Poverty Strategy 6th Annual Report 2008*; *Fuel Poverty in Wales 2004 – modelled headline fuel poverty statistics for 2005 and 2006*

However, this positive progress was reversed in 2004. Data from the Living in Wales property survey in 2004, and subsequent modelling suggested that the number of households in Wales in fuel poverty have increased significantly (as set out in Table 2.).

Table 2: Estimated numbers of households in fuel poverty

Year	Estimate of total number of households in fuel poverty	Estimate of number of vulnerable households in fuel poverty
2004	134,000	115,000
2005	166,000	142,000
2006	240,000	209,000

Source: Fuel Poverty in Wales 2004 – modelled headline fuel poverty statistics for 2005 and 2006

Although UK and Assembly Government programmes have helped to ensure that the energy performance of homes has continued to improve since 2000 (see Table 3), energy prices have increased significantly, particularly since 2004 (see Chart 4). The trend for increasing fuel costs corresponds with the increase in fuel poverty since 2004.

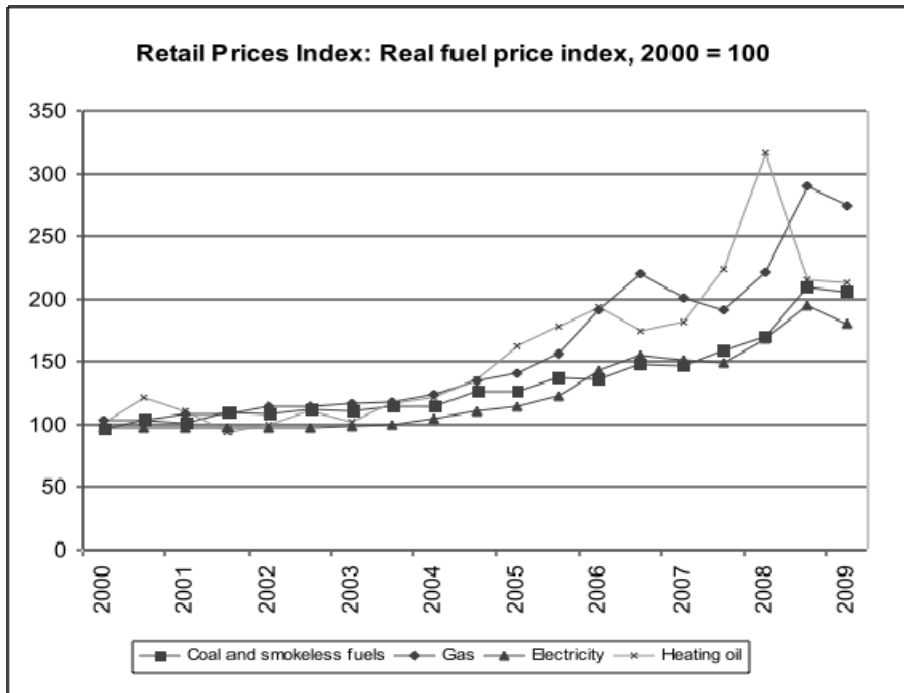
Table 3: Energy efficiency activity

	HEES (households assisted)	Supplier obligations
2001/2	11,021	n/a
2002/3	14,466	11,419*
2003/4	12,572	26,525*
2004/5	13,149	53,969*
2005/6	9,834	Data expected later in 2009
2006/7	13,739	Data expected later in 2009
2007/8	18,647	Data expected later in 2009
2008/9	15,199	Data expected in 2010

**Energy company installations as reported by Energy Saving Trust Home Energy Efficiency Database*

Despite the recession, household disposable income has held up relatively well, supported by falling inflation, which has enabled some households to cope with the rise in fuel prices, however this does not apply to all households. In particular households affected by job losses during the recession will have been adversely affected. Vulnerable communities with historically high levels of unemployment and poverty have been hit harder by the rise in unemployment, putting pressure on their ability to avoid fuel poverty.

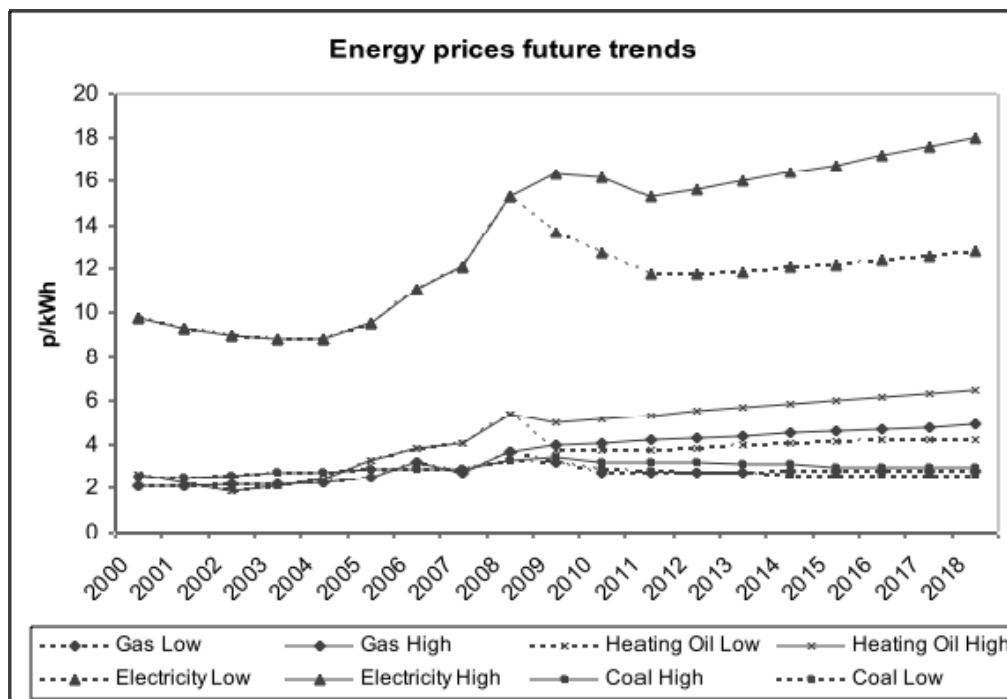
Chart 4: Increasing fuel prices



Source: BERR Energy Trends and Prices August 2009

Although in recent months there has been a trend for reducing energy prices, particularly heating oil, (linked to the economic climate in 2008/9) the long term trend is likely to be for continued price increases.

Chart 5: Energy prices are predicted to continue to increase to 2018



Source: DECC guidance on greenhouse gas policy evaluation and appraisal in Government departments, May 2009

Estimates of the level of fuel poverty in Wales in 2008 will be published in 2010. The data will help us to understand how improvements in energy efficiency, increases in fuel prices and changes in incomes have impacted on fuel poverty including whether there have been any significant changes in distribution across the population of Wales.

Additional information on fuel poverty trends is set out in the Annex.

3. Fuel Poverty Strategy

The Assembly Government acknowledges that the significant increases in fuel prices in recent years have had an impact on the number of households in Wales who are living in fuel poverty. These factors are largely outside the control of the Assembly Government and they make delivery of the 2010 target very challenging, however we remain determined to do everything reasonably practicable to alleviate fuel poverty in Wales.

The Assembly Government's proposed approach through the Fuel Poverty Strategy is:

- Where the Assembly Government has powers to take action that will contribute directly to alleviating fuel poverty, we will ensure that our support and funding is focused on those most in need.
- To promote the co-ordination and joining up of support, not just of different providers who are helping to tackle fuel poverty but also by finding ways to enable other services and programmes to support action that will assist in alleviating fuel poverty.
- To work with others to identify and target the most vulnerable households first and assist those households in accessing support to address income levels, energy prices and the energy performance of their property. Much of this support will be from organisations other than the Assembly Government but our aim is to enable access and support co-ordination.
- Where others have the powers to take action, for example in relation to energy prices, income levels and the benefits system, we will ensure that the Assembly Government plays a proactive role in influencing decisions.
- Ensure that programmes that aim to improve the energy efficiency of a home bring long term improvements in the quality of the housing stock and reduce its carbon footprint.

4. Investment to improve energy efficiency

The Assembly Government is committing significant investment to improving the energy efficiency of homes across a wide range of programmes. It should be noted that the extent to which these programmes focus on fuel poverty varies. However, improving the energy efficiency of a property contribute to

preventing future fuel poverty in that property. The following household and job figures may include some overlapping of programmes and therefore some double counting. The totals provided below should therefore be treated with caution. The key programmes are listed below:

Scheme	Budget (<u>anticipated</u> 09/10 – 11/12)	Number of households likely to be assisted (Figures to 2012 & based on average spend of <u>£3000- £5000 per house unless stated</u>)	Jobs / economic benefit (Person years of employment created to 2012)
Home Energy Efficiency Scheme	£60m	2009/2010 = 18000 2010/2011= 18000 2011/2012= 3000 Total = 39000	960-1920
Wales Housing Quality Standard investment (Approximated figures as proportion of WHQS spent on energy efficiency by LAs & HAs – not WAG funding)	£150m	30,000-50,000 (for next 2 years)	2400-4800
All Wales Low Carbon Buildings Strategic Capital Investment Funding	£24m (£2m spent in 08/09)	4800-8000	384-768
Heads of the Valley Low Carbon Region Strategic Capital Investment Funding	£12m	2400-4000	192-384
Renewal areas	£1m over 2 years (Three year pilot. First year complete)	100-167	8-16
Proposed European Programme (funding subject to WEFO approval)	£10m - £30m (plans in development)	£10m =2000 – 3333 £30m =6000 - 10000 (Not included in total below)	£10m=160-320 £30m=480-960 (Not included in total below)

Additional funding for energy efficiency programmes from other departments including the Assembly Government's Strategic Regeneration division is likely.

£173m has been allocated to the end of the financial year 2011 for new Social Housing Grant (SHG) funded homes built by Registered Social Landlords in Wales. These properties are required to meet the Code for Sustainable Homes at level 3 (25% above building regulations) with the intention of moving to higher levels of the Code as soon as possible.

To inform the issues and timescales for achieving higher levels of the code, the Housing Directorate is currently undertaking a pilot project that involves building approximately 400 homes to code level 4 and 5.

Additional investment is also available from UK Government programmes and supplier obligations:

Scheme	Budget (anticipated 09/10 – 11/12)	Number of households likely to be assisted	Jobs / economic benefit
Carbon Emission Reduction Target (CERT)	£80m (This is the likely figure to 2012)	300,000 (Approximate target to Dec 2011 Pro rated from UK figures ¹) Period post April 2011 – Dec 2012 is being consulted on	1280-2560 (to 2012)
Community Energy Saving Programme (CESP)	£18m	4,500 (Based on pro rated DECC estimated project cost & average spend of <u>£3000-£5000</u> per house)	288-576

A key focus of our activity is to join-up these different programmes and ensure that we are getting the most we can from the difference sources of investment. In total, we anticipate that 76,300 - 101,200 households will benefit from Assembly Government and social housing provider led programmes in the period up to the end of the financial year 2011/2012 and an estimated 380,800 – 405,700 households from the total investment available from Assembly Government and UK programmes in Wales for the same period. As noted earlier CERT estimates are only available to December 2011 and totals may include a certain degree of double counting and should therefore be treated with caution.

As well as helping to alleviate fuel poverty and cut carbon emissions, this investment will stimulate the market for businesses providing low carbon goods and services and create and sustain jobs.

Further details on proposed changes to the Home Energy Efficiency Scheme and Arbed: Strategic Energy Performance Investment Programme are provided in the following sections.

4.1 Home Energy Efficiency Scheme

The Fuel Poverty Strategy outlines proposals for a new, improved all Wales programme to help householders reduce the impact of fuel bills which will

¹ CERT is a measure led process. To get an approximate household number the Department for Energy & Climate Change use illustrative mix statistics showing approx measures delivered. Total loft/Cavity/Solid wall insulation delivered minus 1/3 number of cavity wall to account for multiple measures in the same homes. The figure here is a pro rata Wales figure although there is no compulsion on energy suppliers to commit to this level of work.

replace the Home Energy Efficiency Scheme. The programme will be agreed by the end of 2010. The coordinated programme will encompass advice on energy efficiency, tariffs and benefits, as well as link in to energy company funding and other programmes developed on a UK and Wales-level.

The new programme will work towards a situation where access to all types of support to help reduce the impact of fuel bills is coordinated through a single central hub focused and a stronger and larger referral network. Local agencies and partners will be supported to be able to refer householders into the new programme.

The level of support provided to householders will depend on their individual circumstances, and will include:

- A range of advice and support (including through partner organisations)
- Coordinated access to widely available funding sources like the Carbon Emissions Reduction Target (and its successor).
- For householders that are considered to be most likely to be in fuel poverty (based on available evidence), a whole house assessment will be offered to identify the most cost effective way to improve the energy performance of their property. The Assembly Government will then fund the most appropriate improvements (subject to certain limitations, which will be reviewed from time to time)

Eligibility for whole house assessments and Assembly Government funded improvement packages will be linked to the energy performance of the property and the householder's current circumstances. Eligibility will be defined in regulation and/or determination from time to time, and will be based upon the best available evidence in terms of the groups who are most likely to suffer from fuel poverty. It is proposed that initial eligibility will be those householders who meet all of the following criteria:

- in receipt of a means tested benefit;
- live in a particularly inefficient property (this is currently expected to be those householders who are living in a home that is expected to receive an F or G rating on an Energy Performance Certificate (EPC); and
- live in privately owned or rented accommodation. Social housing will not be eligible for these improvement packages. Other programmes, such as our area based schemes and the Community Energy Saving Programme, offer funding opportunities for inefficient homes in the social housing sector.

It is proposed that the Assembly Government will continue to provide a non-means tested partial grant for loft and cavity wall insulation to householders considered to be vulnerable to the impacts of fuel poverty. It will be set at a level that will ensure that the use of energy supplier or other UK wide funding is maximised before the Assembly Government uses its own funds. This will help to ensure that we are not duplicating funding sources. The partial grant will provide a 'back up' should there be an issue with accessing energy

supplier or other UK wide funding for free or reduced cost loft or cavity wall insulation

The overall approach to Assembly Government investment in improving the energy performance on homes occupied by the fuel poor set out above was supported by the majority of respondents to the National Energy Efficiency and Savings Plan consultation (where it was first proposed). Respondents did however want to be able to comment on further details of the proposals. Our all-Wales fuel poverty programme will be agreed by the end of 2010.

4.2 Strategic Energy Performance Investment Programme (Arbed)

There is also growing recognition that investment in domestic energy efficiency provides an economic stimulus. Domestic energy efficiency is a primary driver of the Green Jobs Strategy given its high labour intensity (HM Treasury labour coefficients estimate that, at 2009 prices, 16-32 person years of employment are generated per every £1m spent in housing retrofit initiatives - the range is due to the different technologies/measures available for domestic energy efficiency, some of which are more labour-intensive than others).

Domestic energy efficiency is a major job creation sector which was recommended by the CBI/TUC in their joint paper to the first economic summit in Wales, and has also been identified as a priority by Lord Stern in his Towards a Green Economic Recovery report and by the EU in its European Economic Recovery Plan - and we are putting significant efforts into ensuring that investment in domestic energy efficiency in Wales is supported by supply-side measures to ensure that local employment and business benefits are secured.

The Strategic Energy Performance Investment Programme (Arbed) has been set up to co-ordinate and strategically spend the money leveraged in to Wales for domestic energy efficiency. Investment will be focused on fuel-poor, low-income households to ensure the most vulnerable households in Wales are assisted. We estimate that over the next three years, should we be successful in leveraging funds into Wales, up to £350m will be invested in Wales in domestic energy efficiency.

In taking a more strategic and coordinated approach to domestic energy efficiency funding, the Assembly Government's priorities are to ensure that as much funding as possible is secured for Wales and it is channelled into activities where it will bring Wales the greatest environmental, social and economic benefits.

5. Advice and support

A consistent message from the consultation on the National Energy Efficiency and Saving Plan was the need to ensure that advice and support was better coordinated, more easily accessible and provided in a format best suited to those needing advice.

In revising the Home Energy Efficiency Scheme and putting the management of the new scheme out to tender, we will be developing a specification to establish a clear central point to enable referrals and advice.

This 'central hub' will coordinate access to, and referrals to and from:

- other advice providers
- local support agencies
- energy company funding
- Assembly Government energy improvement packages

The intention is not to create a significant new overhead but to develop the existing helpline associated with the Scheme into a service that can offer comprehensive referrals and maximise the benefits of all the services available from statutory, third sector and energy company providers.

6. Income maximisation

The Financial Inclusion Strategy for Wales identifies the need to provide an integrated advice service both in terms of how utility bills can be lowered through improved energy efficiency and advice on how households can better manage their debts and increase their incomes through benefit take-up or reducing expenditure with specialist money advice.

Key measures to address fuel poverty that will be taken forward through the Financial Inclusion Strategy include:

- Incorporating fuel poverty into the work of the new Welsh Financial Inclusion Champions team which is jointly funded by the Assembly Government and the Department for Work and Pensions.
- Working with the Financial Inclusion Champions Team to increase awareness of sources of free, impartial debt advice, forming partnerships between debt advice agencies and local third sector lenders.
- Developing a strong and sustainable credit union movement throughout Wales, accessible to all citizens and which has the capacity to deliver a wide range of affordable financial services.
- Encouraging and supporting ways of reducing utility bills including:
 - helping householders to consider whether switching energy suppliers may help to get the best deals on offer
 - helping to ensure the most vulnerable households take advantage of 'social tariffs' to ensure that they can buy energy more cheaply;
 - encouraging householders to have a Benefit Entitlement Check to ensure they are receiving all the benefits they are entitled to;
 - making homes more energy efficient

Ongoing Assembly Government initiatives to ensure people receive assistance they are entitled to with regards to financial inclusion include:

- allocating £1m a year for the next 3 years to further support the take up of Council Tax Benefit and Housing Benefit. To deliver this aim, grants are being paid to local authorities from 2008 - 2010 to allow them to engage with relevant organisations such as Citizens Advice Bureaux.
- funding Citizens Advice Cymru to deliver a £500,000 pilot campaign to increase benefit up-take for families with disabled children.
- working with Job Centre Plus, Her Majesty's Revenue and Customs (HMRC) and other partners to provide additional employment support in target areas, build awareness of Working Tax Credits and investigate how to increase take-up.
- supporting the Debt Redemption and Money Advice (DRAMA) scheme to address problems of debt and financial exclusion in some of Wales' most disadvantaged areas. DRAMA has allocated loans of over £350,000 to over 500 people and provided counselling to significantly more.
- promoting active engagement with UK Government supported saving schemes such as the Saving Gateway account and Child Trust Fund (CTF) account, both accessible through Credit Unions. This scheme will be available from 2010 to people entitled to certain benefits or tax credits and is designed to promote financial inclusion and kick start a saving habit. The Welsh Assembly Government made a commitment in 'One Wales' to "implement an extra Children's Bond for all children entering school". This commitment will be implemented through the Child Trust Fund Cymru scheme which aims to provide an additional top-up to the CTF of all children living in Wales in the very early stages of their primary education.
- funding the Robert Owen Credit Union to continue with the Monergy project which provides a service across Montgomeryshire combining debt counselling with advice on energy efficiency, help with budgeting and payment of bills and access to loans and saving accounts. The Credit Union will receive £20,447 in 2009-10.

7. Energy prices

Increasing energy prices have been a key factor in the rise in fuel poverty in the last few years. Regulation of energy prices is not within the control of the Assembly Government but we use every opportunity to influence energy companies, Ofgem and the UK Government on this issue.

We support building on supplier voluntary agreements and the bringing forward of legislation to set social price support on a statutory footing. We will ensure that the interests of Wales are represented to the UK Government during the development and consultation of legislation. We also support the recent UK Government decision to roll out smart meters across the UK. In our consultation response we emphasised that the roll out of smart meters should

target vulnerable customers first as they would be likely to gain most benefit. These benefits might include more regular and improved accuracy of billing, better customer service and debt management, and easier access to appropriate tariffs.

I meet regularly with the six big energy suppliers and have raised the issue of energy prices with them, particularly in relation to their eligibility criteria for social tariffs and the costs charged to customers for pre-payment meters.

In providing advice through our programmes including the Home Energy Efficiency Scheme, our intention is that it should cover energy tariff advice.