

Economy, Trade and Rural Affairs Committee
Consultation: Cost of Living
From: National Energy Action (NEA) Cymru

1. Introduction

1.1 National Energy Action (NEA) is a national fuel poverty charity that wishes to see that everyone can afford to keep their homes warm and safe.¹ Yet now – perhaps more than ever – a toxic combination of high energy prices, low incomes, and inefficient housing deny this to hundreds of thousands of people in Wales.

1.2 We welcome this opportunity to help inform the Committee’s inquiry into the economic and rural impact of cost of living pressures – with a particular focus on domestic energy – and what further support might be needed over the coming months, especially for those living on the lowest incomes, in the least efficient homes.

2. What are the likely economic impacts of the cost of living crunch?

2.1 In recent months, we have witnessed energy prices soar to unparalleled, often unattainable, levels. The energy price cap rose by 54% on 1 April, essentially doubling the cost of the average default, dual fuel gas and electricity bill in 18 months to £2,000 a year.² Following the tragic war in Ukraine, it is expected to see a further, significant rise in October. In the meantime, those dependent on heating oil have already seen their prices more than triple.

2.2 Few of us will be unaffected by these energy price rises. However, while some can shoulder the increases, others simply cannot. For those on the lowest incomes, living in the least efficient homes, the rising cost of an essential service is devastating and will hit hardest.

2.3 The Welsh Government estimates that 45% of all households in Wales (i.e. 614,000) may now be in fuel poverty, following the 1 April price cap increase. Up to 8% of all households (115,000) could be in severe fuel poverty, needing to spend more than 20% of their income just to keep adequately warm.

2.4 Rising energy prices hit lower income households disproportionately, as they need to spend a higher proportion of their income on energy. Worryingly, the Welsh Government predict up to 98% of all lower income households in Wales (217,700) could now be in fuel poverty, with up to 41% (91,700) predicted to be in severe fuel poverty.³

2.5 The energy and cost of living crisis has, and will continue to see, unacceptable numbers of people face desperate conditions, with no choice but to drastically limit their energy usage, go without heat and power, and fall into spiralling debt, which has a knock-on impact on the broader economy.

2.6 As households fall into arrears with their energy bills, the prospect of having a prepayment meter fitted increases significantly, and with it the potential of losing access to energy if they cannot afford to top up. Prepay users – who are more likely to already live on low-incomes, have poor credit, and be severely indebted – pay a premium with higher costs to serve, and must strive to

maintain payments towards ongoing usage while repaying arrears, meaning that trying to afford to keep the meter topped up becomes a major, daily concern.⁴

2.7 The impact of fuel poverty and fuel debt on people's physical and mental health is acute, as it is also on the health services that support them. Poor-quality housing is already estimated to cost the NHS in Wales approximately £95m every year⁵ and the situation is only likely to get worse as we approach the colder months.

3. How are rural communities being affected by the cost of living crunch, and to what extent are the pressures they face different to urban areas?

3.1 In 2018, households living in rural areas were 40% more likely to be living in fuel poverty than those in urban areas. At the time, 14% of all households in rural locations were estimated to be fuel poor, compared to 10% of all households living in urban areas.⁶

3.2 Households in rural communities are often reliant on more expensive fuels, such as oil or LPG, which do not benefit from the same protections or regulation as gas and electricity. Consumers who rely on off-gas fuels have recently seen prices more than triple and it has been reported that many have been hit by delivery problems in recent months.

3.3 The heating oil market is not covered by Ofgem's price cap and anecdotal feedback from NEA's stakeholders suggests that extreme price fluctuations have led suppliers to suspend normal pricing practices, leading to households having to order oil but not having the price they're going to pay for it confirmed until the day of delivery. For many others, prices have simply been too high, they have had to go without.

3.4 Off-gas households tend to be living in rural locations, very often in older, poorly insulated homes.⁷ Wales has a large proportion of inefficient, solid-wall properties, with higher numbers in rural areas. Poor energy efficiency is a key driver of fuel poverty and more than 80% of fuel poor households in Wales in 2018 lived in inefficient homes⁸; higher than in any other UK nation. This overlap has left many of the poorest Welsh households more exposed to soaring energy prices.

3.5 This is compounded with what is often a requirement to purchase off-gas fuels upfront, alongside issues like rural travel premiums, isolation, and digital exclusion. NEA believes that the need for meaningful, tailored provisions aimed at tackling rural fuel poverty becomes increasingly urgent (as was recommended by the Senedd's former Climate Change, Environment and Rural Affairs Committee's inquiry into fuel poverty in 2019).⁹

4. How effective are the support measures that the Welsh and UK governments have put in place, and what further support might be needed over the coming months?

4.1 To its credit, the Welsh Government has recently announced a £380m package of expanded measures to help people with the cost of living crisis.¹⁰

4.2 This includes providing a second Winter Fuel Support Scheme payment of £200 later this year, to help households with the cost of rising energy bills, widening eligibility to include more households in need, including pensioners eligible for Pension Credit alongside those claiming

working-age, means-tested benefits. This is welcome news and something NEA called for alongside other key stakeholders.

- 4.3 Given relatively low take-up levels of the first Winter Fuel Support Scheme payment made earlier in the year, with varying levels across local authorities, and anecdotal evidence of differing engagement and processing practices, NEA believes it is key now the Welsh Government evaluates the scheme and ultimately takes every step to ensure the next payment reaches as many eligible households as possible. This should be paid ahead of October, to help stop people from going without heat and power in the coldest months.
- 4.4 The Welsh Government's response also includes the continuation of emergency assistance payments under its Discretionary Assistance Fund to help off-gas households in financial hardship top-up oil or LPG. Following calls from NEA and the Fuel Poverty Coalition Cymru, this support is now available all-year-round throughout 2022/23, so people can access help when they need it, providing greater security ahead of colder months and equitable access to emergency payments as those on-gas.
- 4.5 It should be noted, however, that the value of payments available do not currently meet need, given the soaring costs of these fuels. The maximum award for oil, for example, remains at £250, which is now insufficient to purchase the minimum volume of heating oil. The Fuel Poverty Coalition Cymru has advised that the Welsh Government consider and regularly review the level of financial support available. To achieve its intended outcome, it is important that the value of the payment does not fall in real terms and provides the value of support and purchasing power that is needed.
- 4.6 It is vitally important too that we do not lose sight of the urgent need to upgrade the energy efficiency of our existing housing in Wales. Homes which often cannot be kept warm at any reasonable cost.
- 4.7 Warm and safe homes are at the heart of tackling fuel poverty and a fair, affordable transition to net zero. The Welsh Government has recently consulted on the future of its key delivery mechanism to tackle fuel poverty, the *Warm Homes Programme*¹¹, and the Senedd's Equality and Social Justice Committee has led a short inquiry into the same¹².
- 4.8 NEA believes that the Welsh Government must ensure the next Programme:
- targets the 'worst-first', focusing on lifting households on the lowest incomes in the least efficient homes out of fuel poverty;
 - takes an appropriate, multiple-measure, 'fabric-first' approach, including a bespoke programme of support aimed at addressing the distinct challenges faced in rural areas;
 - is accessible to all households eligible for support and measures are supported by comprehensive advice;
 - is backed by sufficient funding and a sound legal footing to meet the ambition set out in the Welsh Government's Tackling Fuel Poverty Plan.
- 4.9 The Warm Homes Programme has undoubtedly made some very welcome improvements to the lives of fuel poor households in recent years. However, its evolution has meant that it has increasingly fallen short of its original intended 'whole house approach', relying heavily on installing boiler replacements and central heating installations, with far fewer insulation measures. This has been to the detriment of other meaningful, fabric upgrades, which would

provide long-term benefits and a permanent solution to lower bills by reducing demand. It has also meant the schemes have reportedly failed to address the specific challenges associated with tackling rural fuel poverty. For further information, we would invite Committee members to see our response to the Equality and Social Justice Committee's inquiry referenced in this endnote.¹³

- 4.10 Finally, NEA believes the UK Government has the opportunity and resources to support the poorest households, but its response to-date has been woefully inadequate.
- 4.11 The expansion of the Warm Home Discount Scheme was proposed before the crisis and is not a response to the current level of energy prices. And a £200 'Energy Bill Rebate' off electricity bills in October – which must be repaid over five years – is wholly inappropriate for low-income, vulnerable households who can ill afford it already.
- 4.12 These measures do very little to shield those most in need from severe harm and NEA continues to call on the UK Government and Ofgem to:
- exempt vulnerable households, in particular prepayment energy users, from paying the £40/year levy that is currently planned to re-pay the 'heat now, pay later' £200 Energy Bill Rebate;
 - provide additional support for low-income households in need ahead of next winter, for example through a bigger Warm Home Discount that directly support more people, or by expanding the Winter Fuel Payment beyond pensioners;
 - develop a social tariff that is additional to current energy market protections, providing a below-cost energy price to low-income households;
 - help to clear utility debts through starting a payment matching scheme, matching every pound that a household makes towards their utility debt repayments.
- 4.13 The Welsh and UK governments must continue to act ahead of even higher price hikes if we are to avoid the worst of cold homes, debt, and needless ill health. Failure to do so will result in a catastrophic fuel poverty crisis that will devastate lives and communities for years to come.

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¹ National Energy Action (NEA) Cymru advocates to make warm homes a national priority, provides platforms for community-facing organisations to come together to share views and best practice, and works with partners to provide training and national qualifications to community-facing staff covering key issues associated with fuel poverty, fuel debt, affordable warmth and practical energy efficiency advice, and to directly support low-income and vulnerable households in need. See www.nea.org.uk.

² The price cap limits the rates a supplier can charge for their default tariffs. These include the standing charge and price for each kWh of electricity and gas (the units your bill is calculated from). It doesn't cap your total bill, which will vary depending on how much energy you use. The price cap rose by 54% on 1 April 2022. Those on default tariffs paying by direct debit saw an average increase of £693, from £1,277 to £1,971 per year. Prepayment customers saw an average increase of £708, from £1,309 to £2,017 per year.

³ See <https://gov.wales/fuel-poverty-modelled-estimates-wales-headline-results-october-2021> Note: The Welsh Government published new modelled fuel poverty estimates for Wales on 13 April 2022. These have been recalculated for October 2021 and revised to take account of fuel prices from 1 April 2022. The Welsh Government expects to publish more detailed analysis of these modelled estimates in late spring.

⁴ Proportionately more households in Wales use prepayment meters compared to England (c. 18% or 200,000). The presence of prepayment meters also varies widely by tenure. In 2018, 5% of owner-occupied dwellings had an electric one, compared to 23% of private rented dwellings, and 46% of social housing. It was a similar picture for gas. The price cap is set higher for prepayment users compared to those who pay by direct debit.

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- ⁵ See *Making a Difference Housing and Health: A Case for Investment*, Public Health Wales at <https://phw.nhs.wales/files/housing-and-health-reports/a-case-for-investment-report>. Note: Public Health Wales' report highlights that every £1 spent on improving warmth in vulnerable households, results in £4 of health benefits. There could also be close to 40% fewer hospital admissions for some cold-related illnesses in those with upgraded homes.
- ⁶ See *Fuel poverty estimates for Wales, 2018: revised*, The Welsh Government at <https://gov.wales/sites/default/files/statistics-and-research/2019-12/fuel-poverty-estimates-wales-2018.pdf>
- ⁷ The Welsh Government's *Welsh Housing Conditions Survey 2018* reported that Wales has some of the oldest and least thermally-efficient building stock in northern Europe, with 26% of dwellings built prior to 1919, and 52% of dwellings built prior to 1965. Wales also has a large proportion of inefficient, solid-wall properties, with higher numbers in rural areas. See: <https://gov.wales/sites/default/files/statistics-and-research/2019-10/welsh-housing-conditions-survey-energy-efficiency-dwellings-april-2017-march-2018-795.pdf>.
- ⁸ See <https://gov.wales/sites/default/files/statistics-and-research/2019-09/fuel-poverty-estimates-wales-2018-020.pdf>
- ⁹ See *Fuel Poverty in Wales*, Climate Change, Environment and Rural Affairs Committee (2020) at <https://senedd.wales/laid%20documents/cr-ld13147/cr-ld13147-e.pdf>
- ¹⁰ See <https://gov.wales/more-330m-help-people-tackle-cost-living-crisis>
- ¹¹ See <https://gov.wales/proposals-next-iteration-warm-homes-programme>
- ¹² See <https://business.senedd.wales/mgIssueHistoryHome.aspx?IId=38494>
- ¹³ See <https://business.senedd.wales/documents/s122018/FP12-%20National%20Energy%20Action%20Cymru.pdf>. Note: NEA also gave oral evidence to the Committee on 7 March, which can be viewed on the Senedd's website at <https://business.senedd.wales/ielIssueDetails.aspx?IId=38494&Opt=3>