

Fuel poverty and the Warm Homes Programme

May 2022



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**Equality and Social Justice Committee
Welsh Parliament
Cardiff Bay
CF99 1SN**

Tel: **0300 200 6565**

Email: **SeneddEquality@senedd.wales**

Twitter: **[@SeneddEquality](https://twitter.com/SeneddEquality)**

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Fuel poverty and the Warm Homes Programme

May 2022



About the Committee

The Committee was established on 23 June 2021. Its remit can be found at:
www.senedd.wales/SeneddEquality

Current Committee membership:



**Committee Chair:
Jenny Rathbone MS**
Welsh Labour



Jane Dodds MS
Welsh Liberal Democrats



Altaf Hussain MS
Welsh Conservatives



Sarah Murphy MS
Welsh Labour



Ken Skates MS
Welsh Labour



Sioned Williams MS
Plaid Cymru

The following Members attended as substitutes during this inquiry.



Tom Giffard MS
Welsh Conservatives



Samuel Kurtz MS
Welsh Conservatives

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Chair's foreword

Living in a warm and secure home should be a universal human right.

Wales has the oldest housing stock in the UK. Most homes are inadequately insulated, cost a disproportionate amount to heat and emit excessive carbon emissions.

The Warm Homes and Energy Conservation Act 2000 set out to improve the energy efficiency of our homes and eliminate fuel poverty. More than twenty years later, we are a long way off achieving this aim.

A combination of flawed policy-making, inadequate regulation and upheavals in world energy markets means that we are going backwards. The need to decarbonise Wales' housing stock in response to the climate emergency already demanded urgent government action. Amidst a perfect storm of soaring energy prices, stagnant wages, and squeezed living standards, a staggering 45 per cent of households in Wales are expected to be in fuel poverty in 2022. Government action on an unprecedented scale is urgently needed now.

Having so many families facing a choice between heating or eating should be unacceptable to anyone living in the 6th richest economy in the world. In the short term, both the UK and Welsh governments need to do more to mitigate the worst excesses of rising energy prices for vulnerable people on the lowest incomes if we are to avoid the excess winter death rate from going through the roof.

The longer term solutions are clear: neutralising the impact of fossil fuel price rises with a combination of energy efficiency and accelerating the transition to sustainable energy sources. To achieve this, we need to learn the lessons of the current Warm Homes Programme in preparing for its successor. Using the Auditor General's 2021 report on the Programme as a starting point, our evidence from stakeholders identified numerous shortcomings with the Programme; its scale, size, and purpose failed to match the level of need in our communities. Achievement of its core objectives to tackle fuel poverty, moreover, were - if not fatally flawed - seriously undermined by aspects of the Programme's design and delivery.

The next Warm Homes Programme must address these shortcomings in order to deliver a transition to net zero carbon that is fair, effective, and just. The successor Programme must specifically target the "left behind" in the private rented sector, and the "harder to treat" older, off-grid properties in rural areas.

We are confident that a better designed and sufficiently resourced Programme can deliver the prize of eradicating fuel poverty and alleviating unacceptable inequalities.

We are grateful to everyone who contributed to this inquiry, including the staff of Audit Wales and other experts whose years of work on fuel poverty was crucial in informing our thinking.

Jenny Rathbone MS

Chair of the Equality and Social Justice Committee

Recommendations

Recommendation 1. The Welsh Government should undertake a review of the support offered to low-income households via the Winter Fuel Support Scheme before autumn 2022. This review should ascertain whether improvements can be made in the targeting of support by:

- assessing take-up rates by local authority area;
- assessing the effectiveness of promotion and awareness-raising; and
- considering whether further outreach work to proactively support harder to reach and vulnerable groups is needed. Page 18

Recommendation 2. The Welsh Government should expedite its review of the priority actions in the Tackling Fuel Poverty Plan with a view to identifying immediate- to short- term actions or measures that the government could take to support families struggling with fuel poverty and the setting of interim targets.Page 18

Recommendation 3. The Welsh Government should work with the Fuel Poverty Advisory Panel to identify immediate- to short- term actions or measures that the government could take to support families in fuel poverty. This should include taking into account opportunities to maximise the benefits of the recent VAT cut to energy saving materials and insulation.....Page 18

Recommendation 4. In the next iteration of the Warm Homes Programme, the Welsh Government should remove the single application cap and design a more intelligent means of limiting costs than the current arbitrary grant cap.Page 30

Recommendation 5. In the next iteration of the Warm Homes Programme, the Welsh Government should develop smarter, less restrictive eligibility criteria which ensure, as a minimum, that any household that meets the definition of fuel poverty is able to access support when needed. Any changes to the eligibility criteria should also consider:

- how EPC D- rated properties can be supported in future; and
- the introduction of a business turnover threshold (above which a primarily domestic household which is also registered as a business would become ineligible) to help support small-scale and rural businesses which are currently subject to eligibility restrictions. Page 31

Recommendation 6. The Welsh Government should learn the lessons of the Audit Wales report and set out in its response how it intends to ensure that the next iteration of the Warm Homes Programme is bigger in scale, smarter in who it targets and greener in its interventions.Page 31

Recommendation 7. The Welsh Government should set out its preferred legal mechanism for underpinning the next iteration of the Warm Homes Programme including how it will ensure that the Senedd and other stakeholders are able to scrutinise these robustly.Page 31

Recommendation 8. The Welsh Government should encourage boiler repair rather than replacement where possible, especially in instances where other measures such as draught exclusion and insulation have not been fully explored or where greener alternatives (such as air source heat pumps) are available.Page 31

Recommendation 9. The Welsh Government should ensure that a future area-based scheme prioritises collaboration and partnership working between the scheme, local authorities, community groups and others.Page 39

Recommendation 10. The Welsh Government should publish an assessment of the advantages and disadvantages of piloting the “example village” approach of targeting a village in its entirety in order to establish a blueprint for other towns and villages to emulate. This assessment should include existing research and examples of international best practice.Page 39

Recommendation 11. The Welsh Government should ensure that a future area-based scheme develops a community engagement strategy to ensure that the benefits of existing networks are maximised, and that local communities feel a much stronger sense of buy-in.Page 39

Recommendation 12. The Welsh Government should ensure that the next iteration of the Warm Homes Programme includes a robust data collection, monitoring, and evaluation framework which will aid the contract management and compliance process and enable better measurement of outcomes and regular audit.Page 39

Recommendation 13. The Welsh Government should clarify how it intends its “phased approach” in the next Warm Homes Programme to work in practice. We recommend that the phased approach is accompanied by periodic reviews to ascertain whether the Programme is delivering against its objectives. The number and sequencing of any such periodic review would depend partly on the length and duration of the Programme, however, we would expect one to take place at the half-way point as a minimum.Page 40

Recommendation 14. The Welsh Government should set out in its response to this report what action it has taken to ensure that the mistakes made as part of the procurement and contract management of the current scheme cannot be repeated in another government procurement exercise or scheme in future..... Page 40

Recommendation 15. The Welsh Government should ensure that the next iteration of the Warm Homes Programme has a fit-for-purpose regime for quality assurance, which includes:

- a programme of post-installation checks to be undertaken by an independent third party; and
- robust processes for gathering, collecting, analysing and storage of performance data. Page 40

Recommendation 16. The next iteration of the Warm Homes Programme should look to cover the cost of ‘enabling works’ such as redecoration especially in the case of the lowest-income families, and ensure that all participants in the scheme are aware of any hidden costs that they will be liable for up front.....Page 41

Recommendation 17. The Welsh Government should embed the ‘fabric and worst first’ approach to retrofitting, targeting the poorest households in the least fuel efficient homes, into the core principles of the next iteration of the Warm Homes Programme. Page 49

Recommendation 18. The Welsh Government should work with the sector to formulate a clear, long-term strategy for decarbonisation with the aim of giving industry the confidence it needs to invest in skills, technology and people..... Page 50

Recommendation 19. The Welsh Government should update the Senedd and this Committee on progress towards publication of its Net Zero Skills Action Plan and should look to publish it as soon as possible and no later than the start of the Senedd’s planned Summer Recess in July 2022. Page 50

Recommendation 20. With the potential for gas prices to continue to rise for the foreseeable future, amidst renewed concerns regarding the security of energy supplies, the Welsh Government should identify the funding required to respond by reviewing the sufficiency of its spending allocations for energy efficiency in housing. This review should identify any actions or activities that can be prioritised, scaled up, or accelerated to both reduce demand and increase efficiency and be completed by December 2022. Page 50

Recommendation 21. The Welsh Government should create an energy efficiency scheme to tackle rural fuel poverty. This scheme should include a plan for addressing some of the specific challenges faced in rural areas including:

- shortage of necessary skills in local workforces;
- supply chain issues;
- the higher proportion of off-grid, harder-to-treat, properties. Page 56

Recommendation 22. The Welsh Government should improve energy efficiency through a combination of incentives, standards and engagement.

- To incentivise action the Welsh Government should promote the current zero-rated VAT on insulation measures and explore the feasibility of an energy efficiency loans scheme for landlords in the private-rented sector.
- To improve standards the Welsh Government should urge the UK Government to act on proposals to increase MEES to EPC C- by 2028 and, if unwilling to act, explore implementation of higher MEES standards in Wales only.
- To improve engagement with the sector the next iteration of the Warm Homes Programme should include improved advice and guidance which specifically targets private sector landlords and their tenants. Page 58

Recommendation 23. The Welsh Government should engage Rent Smart Wales in the development of the next Warm Homes Programme with a view to using that body as a conduit for engagement with the private-rented sector on energy efficiency and smart metering alongside identifying opportunities for partnership working. The Welsh Government should update us on progress with this work by November 2022. Page 58

1. Introduction

The issue of fuel poverty encapsulates one of the most significant challenges of the twenty-first century: addressing the threat of climate change whilst protecting the most vulnerable from the cost of mitigation.

Background

1. This report sets out the conclusions and recommendations of the Equality and Social Justice Committee's work on fuel poverty and the effectiveness of the Warm Homes Programme.
2. The **Warm Homes Programme** ("the Programme") is the Welsh Government's flagship programme for delivering home energy efficiency improvements for households either in, or at risk of, fuel poverty and is made up of the Nest and Arbed schemes.
3. This report builds on the Auditor General's **report on the Warm Homes Programme** published in November 2021, and the Fifth Senedd's Climate Change, Environment and Rural Affairs (CCERA) Committee **report on fuel poverty in Wales** published in April 2020.

Evidence gathering

4. The Committee gathered evidence through public consultation and oral evidence sessions with stakeholders including think tanks, charities, and industry experts. The Committee explored how the evidence received related to the findings of the Audit Wales report.
5. The Committee heard from Jane Hutt MS, Minister for Social Justice (the Minister), on 21 March 2022.
6. The Senedd's Citizen Engagement Team held one-to-one interviews with individuals with experience of the Warm Homes Programme, individuals in or at risk of fuel poverty, and private sector landlords.
7. Full details of the evidence gathered can be found in the Annex. The Committee would like to thank all who gave evidence to this inquiry.

Terms of reference

8. The terms of reference for the inquiry were:

- What are the main lessons learned from the Welsh Government's current Warm Homes Programme?
- How can these lessons help shape the next iteration of the Warm Homes Programme to ensure that it better supports those living in, or at risk of, fuel poverty? In particular:
 - i. what should the eligibility criteria for home energy efficiency measures be?
 - ii. should the area-based approach to tackling fuel poverty (Arbed) continue?
 - iii. what specific support should be made available to meet the challenges associated with rural fuel poverty?
 - iv. how can private sector landlords be encouraged to tackle fuel poverty amongst tenants?
 - v. how can any successor scheme(s) better advance equality and social justice considerations?
- How can the Welsh Government ensure that the next iteration of the Warm Homes Programme better aligns with its efforts to decarbonise Welsh housing?

2. Fuel poverty in the immediate term

Following unprecedented increases in the cost of energy, particularly gas, latest government estimates show an alarming increase in the number of people struggling with fuel poverty. This chapter outlines actions that need to be taken before further price rises take place in October 2022.

9. This inquiry initially set out to look at the Welsh Government’s Warm Homes Programme and the key challenges and opportunities that could be expected from a successor scheme. During the course of the inquiry, however, a number of factors have heightened concerns around the immediate threat of fuel poverty faced by Welsh communities.

The rising cost of living

10. At the beginning of 2022 the Office for National Statistics calculated inflation to be running at 5.5% with the main driver being rising energy costs.¹ There have been dramatic increases in the wholesale price of energy, particularly gas, due to a range of factors including supply constraints, low levels of wind, and the war in Ukraine.²

11. In February, the energy regulator Ofgem announced an increase of 54 per cent in the energy price cap from April 2022.³ The change will affect an estimated 22 million customers across the UK. According to Ofgem, those on default tariffs paying by direct debit will see a £693 a year increase, with those on prepayment meters suffering a £708 a year increase. Further rises in the price cap are expected in October.

12. These changes to the energy market are expected to hit the poorest households in Wales harder than any other UK nation or region, according to estimates by the National Institute of Economic and Social Research. Their figures suggest that the poorest households in Wales spend over a quarter – at 26.2 per cent – of their income on energy and food. “Neither wage growth nor welfare benefits will compensate for fast-rising inflation”.⁴

¹ Office for National Statistics, [‘Consumer price inflation, UK: January 2022’](#)

² House of Commons Library, [The energy price crunch](#) – 14 January 2022

³ Ofgem, [Price cap to increase by £693 from April](#)

⁴ National Institute of Economic and Social Research, [UK Economic Outlook Winter 2022](#)

Definitions of fuel poverty

13. The Welsh Government failed to meet its statutory target to eradicate fuel poverty by 2018; its new fuel poverty plan published in 2021 hopes that by 2035:

- no households are estimated to be living in severe or persistent fuel poverty as far as reasonably practicable;
- not more than 5 per cent of households are estimated to be living in fuel poverty at any one time as far as reasonably practicable; and
- the number of all households “at risk” of falling into fuel poverty will be more than halved based on the 2018 estimate.⁵

14. The Welsh Government’s Tackling Fuel Poverty Plan defines households needing to pay more than 10 per cent of their income on heating their home as ‘in fuel poverty’; households needing to pay more than 20 per cent as living in ‘severe’ fuel poverty; and households needing to pay more than 8 per cent but less than 10 per cent as ‘at risk of fuel poverty’.⁶

15. In October 2021 an estimated 200,000 Welsh households are fuel poor with a further 153,000 at risk of fuel poverty. These figures do not take account of the 1 April 2022 rise in the energy price cap. Taking account of the 1 April 2022 price cap rise, the Welsh Government estimates:

- Up to 45 per cent (614,000) of all households could be in fuel poverty following the price cap increase in April 2022.
- Up to 8 per cent (115,000) of all households could be in severe fuel poverty.
- Up to 15 per cent (201,000) of all households could be at risk of falling into fuel poverty.⁷

16. The Fifth Senedd CCERA Committee report on fuel poverty called on the Welsh Government to establish a “more appropriate definition of fuel poverty” which “more accurately reflects the lived experience of fuel poor households” and which should consider the “residual income approach” in England and Scotland as its starting point.⁸

⁵ Welsh Government, [Tackling Fuel Poverty Plan](#) – 2 March 2021

⁶ Welsh Government, [Tackling Fuel Poverty Plan](#) – 2 March 2021

⁷ Welsh Government, [Written Statement: Fuel Poverty](#) – 13 April 2022

⁸ Welsh Parliament, Climate Change, Environment and Rural Affairs Committee, [Report on fuel poverty in Wales](#) – April 2020

17. Evidence from the Chartered Institute of Housing Cymru (CIHC) highlighted this recommendation stating that the Scottish approach “takes housing, childcare, disabled living and other costs into account when determining the level of income available to pay for fuel” and therefore provides “a more sensitive measurement of fuel poverty.”⁹

Relief for those in immediate need

18. Submissions by LocalGiving, Ynys Môn County Council, and National Energy Action (NEA) highlighted the difficult and precarious situation faced by some families encapsulated by the “Heating or Eating?” question.¹⁰

19. The rising cost of living and projected increase in energy costs were frequently referenced by contributors in our engagement work as concerns for the future. Many said they were already acutely aware of their energy use and feared that any further adjustments would mean choosing between heating and eating.¹¹

20. Localgiving said that neither scheme within the Warm Homes Programme “seemed to address people who are in immediate need” such as those in debt as a result of fuel bills. They argued that “the most effective projects were those that combined immediate interventions, thus creating interest and getting buy-in from beneficiaries, with ongoing behaviour change activities, which provide long-term sustainable solutions for people impacted by fuel poverty.”¹² They highlighted measures that reduce immediate need such as the distribution of “warm packs” which could include: “draft excluders; energy efficient light bulbs; heavy curtains; slow cookers; radiator foil and bleeders; energy monitors; thermal imaging cameras (to illustrate where heat loss occurs); low cost, high heat radiators and electric oil filled radiators; debt advice and advocacy.”¹³

21. Jack Wilkinson-Dix of Energy Saving Trust (EST) made a distinction between addressing immediate energy efficiency improvements and immediate needs more generally (which requires looking at income). He said that Nest “isn’t really designed to offer immediate energy efficiency improvements” but that it is able offer immediate help in the form of “benefit-entitlement checks, income maximisation, debt advice, signalling tariff switching to people.”¹⁴

⁹ Written evidence, [Chartered Institute of Housing Cymru](#)

¹⁰ Written evidence, [Localgiving, Ynys Môn, National Energy Action](#)

¹¹ Equality and Social Justice Committee, [Summary of Engagement activity](#)

¹² Written evidence, [Localgiving](#)

¹³ Written evidence, [Localgiving](#)

¹⁴ Record of Proceedings, [paragraph 180](#) – 7 March 2022

22. Ben Saltmarsh of NEA predicted a “debt mountain looming” and that some households faced “a stark choice of either falling into debt and heating your home, or not heating your home and going without”. He went on to highlight specific protections available in the energy industry such as the need for suppliers to take into account a household’s “ability to pay” when negotiating repayments before adding that improving energy efficiency and the fabric of people’s homes needed to be addressed as an immediate need.¹⁵

23. Community Housing Cymru told us that “removal of the Universal Credit uplift and the significant increase in energy costs,” was forcing more of their tenants into fuel poverty: “self disconnection is a growing problem”.¹⁶

The response of the UK and Welsh governments

24. After the energy price cap announcement and in response to growing public concern regarding energy prices the UK Government announced an Energy Bills Rebate of £200 per household to mitigate price increases. The rebate will be applied by the energy company directly to bills in the autumn in the form of a loan and will be repaid automatically in £40 instalments over five years from 2023.¹⁷

25. In the Chancellor’s Spring Statement, the UK Government announced a cut in Value Added Tax (VAT) to 0% on energy saving materials (insulation) and the installation of energy saving materials.¹⁸

26. The Welsh Government announced a one-off payment of £200 for eligible households called the Winter Fuel Support Scheme.¹⁹ It also introduced a £150 “cost-of-living payment” provided to all households in properties in council tax bands A to D.

27. NEA called for the Welsh Government’s tackling fuel poverty strategy to include interim targets stating that “non-statutory targets that were 15 years away, that spanned three Senedd terms, with no interim milestones, are quite unlikely to drive the sustained and necessary actions that are required to tackle fuel poverty in Wales.”²⁰

28. To coincide with the publication of revised fuel poverty estimates in Wales in April 2022 the Minister for Social Justice reiterated the Welsh Government’s calls for “the UK Government

¹⁵ Record of Proceedings, [paragraph 184](#) – 7 March 2022

¹⁶ Written evidence, [Community Housing Cymru](#)

¹⁷ HM Government, [Energy Bills Rebate Factsheet](#) – February 2022

¹⁸ HM Government, [Spring Statement 2022: documents](#)

¹⁹ Welsh Government, [Winter Fuel Support Scheme](#)

²⁰ Written evidence, [National Energy Action](#)

to take concerted and targeted action to ease the cost-of-living crisis". The measures highlighted by the Minister included:

- paying the £200 Energy Bills Rebate as a non-repayable grant rather than loan;
- introducing a lower energy price cap for lower income households; and
- reinstating the £20-a-week uplift to Universal Credit.

29. The Minister said she would be chairing a second Cost-of-Living summit in the months ahead.²¹

Our view

Economic outlook

Even before the war in Ukraine, soaring gas and energy prices coupled with rising inflation for essentials such as food were putting significant pressure on household budgets. The combined effect of rising prices and low wage growth is contributing to what the Office for National Statistics is predicting will be the biggest fall in living standards since the 1950s. With lower average household incomes, households in Wales are more exposed to these pressures than other parts of the UK.

The latest estimates of fuel poverty show that 14 per cent of households in Wales are living in fuel poverty and that numbers may yet rise to a staggering 45 per cent of households. The measures announced by the Welsh and UK governments such as the Winter Fuel Support Scheme and the Energy Bills Rebate are welcome but insufficient. The current measures are unlikely to be enough to support those at the lower ends of the income scale who are already struggling to pay fuel bills. Many harder to reach households are likely to 'fall through the cracks' in support. As the impact of the April 2022 energy price cap changes on low-income households become clearer the Welsh Government must explore what further immediate action may be necessary to prevent low income households having to reduce the amount of food they eat in order to heat their homes.

Recommendation 1. The Welsh Government should undertake a review of the support offered to low-income households via the Winter Fuel Support Scheme before autumn 2022. This review should ascertain whether improvements can be made in the targeting of support by:

²¹ Welsh Government, [Written Statement: Fuel Poverty](#) – 13 April 2022

- assessing take-up rates by local authority area;
- assessing the effectiveness of promotion and awareness-raising; and
- considering whether further outreach work to proactively support harder to reach and vulnerable groups is needed.

Tackling fuel poverty in the longer term will require big improvements in energy efficiency and a switch to sustainable sources of energy. However, in terms of the current crisis we are calling for targeted action and accelerated plans to improve energy efficiency in the poorest households. We note that the priority actions contained within the Tackling Fuel Poverty Plan are subject to review, the outcome of which is not expected until spring 2023. Given the seriousness of the situation we ask for this review to be expedited with an emphasis on setting interim targets and immediate action that the Welsh Government could take.

Recommendation 2. The Welsh Government should expedite its review of the priority actions in the Tackling Fuel Poverty Plan with a view to identifying immediate- to short- term actions or measures that the government could take to support families struggling with fuel poverty and the setting of interim targets.

We note the decision to cut VAT to 0% on insulation and home insulation products and believe that the Welsh Government should explore opportunities to maximise the benefits of this measure, including through promotion and awareness-raising among potential beneficiaries. We note the long list of measures outlined by Localgiving in the form of “warm packs”.

Recommendation 3. The Welsh Government should work with the Fuel Poverty Advisory Panel to identify immediate- to short- term actions or measures that the government could take to support families in fuel poverty. This should include taking into account opportunities to maximise the benefits of the recent VAT cut to energy saving materials and insulation.



In 2021, 200,000 households (14%) were living in fuel poverty.

Now the Welsh Government suggests that 614,000 households (or 45%) could be living in fuel poverty this winter.

3. Learning the lessons of the current programme

“Installing new heating systems without insulating a home is like buying a teapot with cracks in it.”²²

The Auditor General’s report on the current Warm Homes Programme highlights numerous shortcomings. While the Programme has undoubtedly helped many people, it is vital that lessons are learned if we are to deliver the change needed to eliminate fuel poverty and meet our climate change ambitions.

The Warm Homes Programme: Nest and Arbed

30. The Warm Homes Programme, made up of the Nest and Arbed schemes, was created in 2011 and is one of the Welsh Government’s key mechanisms for supporting privately owned or rented households in, or at risk of, fuel poverty.²³ The Welsh Government has invested nearly £400 million into the Programme in the year to March 2021 which has improved the energy efficiency of 67,100 homes.²⁴

31. The ‘needs-based’ Nest scheme offers a package of energy efficiency measures and advice to reduce energy bills for people on low incomes or who are struggling with fuel poverty. The ‘area-based’ Arbed scheme offered energy efficiency improvements in targeted geographical areas. The Arbed scheme ended in November 2021. Nest is due to continue until March 2023.

32. A consultation by the Welsh Government on the next iteration of the Warm Homes Programme closed on 1 April 2022.

33. Under the Programme, households eligible for either Nest or Arbed could in theory access a package of energy efficiency measures based on a whole house assessment including:

²² Written evidence, [Care and Repair Cymru](#)

²³ Welsh Government, [“Get help with energy efficiency.”](#)

²⁴ Equality and Social Justice Committee, [Evidence paper from Welsh Government, item 2](#)

- insulation;
- central heating systems of any fuel type;
- lower carbon heating measures such as air source heat pumps;
- water saving measures and energy efficient lighting;
- and support from the Nest advice line.

34. Applications to Nest were capped at one per household, and for either scheme the maximum expenditure is between £5,000 and £8,000 for E-rated properties and £8,000 to £12,000 for F or G-rated.²⁵

The Audit Wales report

35. Audit Wales published a [report on the Warm Homes Programme](#) in November 2021. The report found a number of issues to resolve including:

- rethinking the energy efficiency measures offered;
- the need to clarify the core purpose of Nest;
- the continued viability of the area-based approach used by Arbed; and
- tightening future contracts to align costs and strengthening oversight to ensure better value for money.²⁶

36. The Welsh Government responded in December 2021 and in accepting every recommendation, highlighted the work underway to evaluate the current Programme and prepare for the successor scheme (or schemes).²⁷

Objectives, scale and drift

37. One of the key findings of the Audit Wales report was the need to be clearer about the core purpose of Nest (and any successor scheme). The report found that Nest had “shifted from its original purpose of tackling fuel poverty” and instead “increasingly focussed on replacing broken or inefficient boilers for people on means tested benefits”.²⁸

²⁵ Welsh Government, [“Get help with energy efficiency.”](#)

²⁶ Audit Wales, [The Welsh Government’s Warm Homes Programme](#) – November 2021

²⁷ [Welsh Government response to the Auditor General for Wales’ Report](#) - 23 December 2021

²⁸ Audit Wales, [The Welsh Government’s Warm Homes Programme](#) – November 2021

38. Figures for 2020-21 show that 94.4 per cent of measures installed by Nest were for central heating systems, 5.5 per cent for loft insulation, and 0.1 per cent were draught-proofing measures.²⁹ Furthermore in terms of the fuel poverty profile of recipients, 49.6 per cent were classed as “not in fuel poverty” in 2020-21 (the equivalent figure was 63.7 per cent in 2019-20; and 56.7 per cent in 2018-19).³⁰

39. A number of organisations who took part in our inquiry suggested that design flaws regarding the objectives and the scale of the Programme had hampered its effectiveness, while others noted the positive impact of the Programme in achieving its aims.

40. The Bevan Foundation said that the Programme was “undermined” by having dual aims (of decarbonisation and fuel poverty) and “did not adequately meet either objective”.³¹ In keeping with the findings of the Audit Wales report, they said that the Programme’s decarbonisation impact was “limited” and that the Programme had “prioritised the installation of carbon emitting measures rather than decarbonisation measures such as the installation of insulation.” They also argued that the objective of decarbonisation had curtailed the Programme’s effectiveness in tackling fuel poverty by supporting households that “don’t live in fuel poverty” and offered “very little assistance to households living in fuel poverty beyond improving energy efficiency”.³²

41. Contributors to our engagement work also highlighted that any new scheme should include windows and doors, even if part-funded, as any benefit gained from installing energy efficiency measures is lost if there are deficiencies elsewhere in the property.³³ Case Study F illustrated this point:

“The 8 panels fitted are insufficient to improve the energy efficiency of the property. If the property has poor doors, poor windows, poor roofing felt or none, poor insulation and further inefficiencies leading to heat loss then any benefit proposed by solar panels will be negated if these aspects are not corrected.”

²⁹ Welsh Government, [Nest Annual Report 2020-21](#)

³⁰ Welsh Government, [Nest Annual Report 2019-20](#); [Nest Annual Report 2018-19](#) (see also figures highlighted in written evidence submissions by the [Bevan Foundation](#); [Care and Repair Cymru](#))

³¹ Written evidence, [Bevan Foundation](#)

³² Written evidence, [Bevan Foundation](#)

³³ [Summary of engagement activity](#)

42. Care and Repair Cymru called for the Programme to “evolve beyond its current default as a boiler replacement scheme” and drew attention to the low proportion of interventions as part of the Programme that involved insulation:

“Simply replacing faulty boilers does not mean that a household will no longer struggle with fuel poverty if heat is still escaping from their properties and their energy bills remain high because of it. Installing new heating systems into homes without insulating a home is like buying a teapot with cracks in it.”³⁴

43. The Energy Saving Trust (EST) (who were involved in delivering the energy efficiency advice line for Nest) noted the positive impact of Nest and Arbed stating that both schemes had been “effective in terms of supporting some of the most vulnerable households in Wales to reduce their energy bills, improve the comfort and quality of their homes and reduce carbon emissions.”³⁵ EST added that while “there have been challenges involved in delivering aspects of the Warm Homes Programme” they “strongly supported” the dual focus and called for greater flexibility in the design and focus of any successor scheme to allow for new technologies, approaches and priorities.³⁶

44. Warm Wales (who had a role in referrals for Nest) said that the Programme was “tremendously positive” and had “created vast numbers of warmer homes across Wales”. They did however acknowledge “scope to refine and enhance aspects of the delivery model to make the scheme more efficient, accessible and inclusive.”³⁷

45. British Gas/Centrica, who managed Nest on behalf of the Welsh Government, said that it was “incredibly proud of [its] association with the programme” and that in 2020-21 energy efficiency improvements had provided an average saving of £305 per household per year.³⁸ They argued for multiple boiler repairs to be included in the scheme and for an end to the single application cap, as the two lessons learnt from the current Programme.

46. NEA identified a lack of scale as a key shortcoming of the Programme stating that it “had not been sufficient to meet need or targets” and that the “likely scale of fuel poverty in 2022 will require a much larger number of households per year be lifted out of fuel poverty in comparison to what the current Programme has achieved. Even by 2018 estimates, the former

³⁴ Written evidence, [Care and Repair Cymru](#).

³⁵ Written evidence, [Energy Saving Trust](#).

³⁶ Written evidence, [Energy Saving Trust](#).

³⁷ Written evidence, [Warm Wales](#).

³⁸ Equality and Social Justice Committee, [Letter from Centrica regarding the Fuel Poverty and Warm Homes Programme inquiry](#) - 20 April 2022

Minister stated the number of homes benefiting from investment will need to be more than doubled."³⁹

47. Speaking on behalf of NEA, Ben Saltmarsh highlighted other concerns regarding the measures adopted. He noted that the "vast majority of measures" had been replacement boilers and central heating systems and that this had been "to the detriment of really meaningful fabric upgrades that would make a permanent solution to lower bills, and bring many long-term benefits."⁴⁰

48. The Welsh Local Government Association (WLGA) said that one of the key lessons learned was "the need for future interventions to be developed with clear decarbonisation objectives, given the previous schemes' dependence on gas boilers" and that this would help with "future proofing". However they also noted some of the space, planning, insulation and energy supply requirements that need to be met to deliver some zero carbon alternatives such as heat pumps.⁴¹

49. The Future Generations Commissioner, Sophie Howe, highlighted that concerns had previously been raised regarding the "scale and pace" of the Warm Homes Programme, and identified a risk around accepting short-term solutions to long-term problems:

*"I don't think that we can underestimate the scale of that challenge because, yet again, we now find ourselves trying to resolve a long-term problem whilst in the middle of a real peak of a crisis of it, and that's always very difficult, and the risk there is that we chuck short-term money at a problem and miss the kind of wider, longer term objectives of it. I think if there's one thing that the Committee could keep an eye on, it's that. How do we respond to the short-term real pressures on households whilst not storing up problems for the future, as we've seen in terms of quickly installing gas boilers?, But actually, gas boilers are not the long-term answer at all"*⁴²

50. Dr Victoria Winckler of the Bevan Foundation encapsulated the Programme's lack of core focus by asking: "is it a fuel poverty programme, is it a crisis boiler replacement programme or is it a decarbonisation programme?"⁴³

³⁹ Written evidence, [National Energy Action](#)

⁴⁰ Record of Proceedings, [paragraph 112](#) – 7 March 2022

⁴¹ Written evidence, [Welsh Local Government Association](#)

⁴² Record of Proceedings, [paragraph 58](#) – 7 March 2022

⁴³ Record of Proceedings, [paragraph 12](#) – 14 February 2022

Eligibility criteria for Nest and Arbed

51. The evidence received suggests that – alongside a lack of sufficient scale and clear purpose – the eligibility criteria used by the Programme had a role in reducing its effectiveness. Details of the eligibility criteria for both schemes is provided in: **Table 1 Eligibility criteria for Nest and Arbed schemes under the Warm Homes Programme.**

52. Jack Wilkinson-Dix highlighted the fact that, when the Programme was first devised, being in receipt of a means-tested benefit was a helpful proxy for fuel poverty but that during the intervening decade the situation had changed. In 2011 around 68 per cent of people who were in fuel poverty were on means-tested benefits. According to Mr Wilkinson-Dix by today the situation had changed to such an extent that around 70 per cent of people who are in fuel poverty are not on any means-tested benefits.⁴⁴

53. Care and Repair Cymru welcomed proposed changes to extend eligibility criteria to low-income households not on means-tested benefit, stating that the changes “would make the scheme more accessible” to older people including owner-occupiers and private tenants.⁴⁵ They also highlighted concerns regarding the “arbitrary” savings threshold for people aged 75 and over:

“One case – about which we have complained to Nest, but it is not an isolated incident – focused on a client who, aged 75, had £16,500 in a savings account which was marginally above the Nest savings threshold over £16,000. The client also had annual income of higher than the £21,352, due to receiving the higher rate Attendance Allowance. If this client were a year younger, and if they did not have such severe health conditions which resulted in high Attendance Allowance payments, they would qualify for the Nest scheme. We believe this is discrimination on the base of age and health, and as such this should be rectified”.⁴⁶

54. Warm Wales, NEA and EST highlighted the fact that having a business address registered to a property, even an online shop, also makes a household ineligible for support under Nest.⁴⁷

⁴⁴ Record of Proceedings, paragraph 153 – 155 – 7 March 2022

⁴⁵ Written evidence, Care and Repair Cymru

⁴⁶ Written evidence, Care and Repair Cymru

⁴⁷ Written evidence, Warm Wales; National Energy Action; Energy Saving Trust

Warm Homes Programme

2011 – 2023



Cartrefi Clyd
Llywodraeth Cymru
Welsh Government
Warm Homes

Funded energy efficiency improvements to eligible households through **Nest** and **Arbed**.

Nest



A needs-based scheme for fuel poor households.

Ends April 2023.

Eligibility criteria:



Household receives a means-tested benefit, and Energy Performance Certificate (EPC) rating of E, F or G.

OR



Household has a member with a health condition.



Low-income (related to number in household) and have (EPC) rating of D, E, F or G.

Arbed



Area-based scheme which offered energy efficiency improvements.

Ended November 2021.

Eligibility criteria:



Required to target deprived areas with clusters of homes with EPC ratings of E, F or G.

55. Jonathon Cosson of Warm Wales told us that the grant cap and the fact that recipients could only apply once had forced many to choose between a new heating system or insulation:

"One of the problems we tend to find with Nest is that it's not that it necessarily has to be insulation or heating, but because the grant levels, or the grant caps, don't allow both, because you pass the threshold, then it tends to be one or the other. I'd like to see, perhaps, two streams of funding for Nest, going further—one a heating stream and one an insulation stream—and you can combine the two and look at both so that you can do a proper whole-house approach, which we can't currently do in the way that Nest is being delivered currently."⁴⁸

56. In addition to calling for more funding for the successor scheme, Mr Cosson argued for a "fabric first" ethos which includes lower cost energy efficiency measures.⁴⁹ He also argued that a number of benefits payments such as Personal Independence Payments and Attendance Allowance should be removed from the income assessments so that the successor scheme better targets those who are vulnerable.⁵⁰

57. Ben Saltmarsh of NEA said that there were "mixed views on [the Scheme's] impact on reducing fuel poverty and some serious questions have been raised too as to how effective those schemes have been in targeting those in fuel poverty and in greatest need of support."⁵¹ The NEA's written submission highlighted the fact that in 2018, 69 per cent of those in fuel poverty in Wales were not in receipt of means-tested benefits.⁵²

58. Dr Victoria Winckler of the Bevan Foundation argued that current eligibility criteria were too restrictive and that the income thresholds were "far too low."⁵³ Dr Winckler instead advocated "a shift to some sort of means-tested approach that isn't all or nothing—so you can get it all if you're on a benefit and nothing if you're £2 over—but some sort of sliding scale that offers a mix of grants and loans depending on your income, which would have the benefit of helping people on middle-level incomes not only to cut their energy costs, but also to reduce their carbon emissions."⁵⁴

⁴⁸ Record of Proceedings, [paragraph 7](#) – 14 February 2022

⁴⁹ Record of Proceedings, [paragraph 7](#) – 14 February 2022

⁵⁰ Record of Proceedings, [paragraph 38](#) – 14 February 2022

⁵¹ Record of Proceedings, [paragraph 153 - 155](#) – 7 March 2022

⁵² Written evidence, [National Energy Action](#)

⁵³ Record of Proceedings, [paragraph 31](#) – 14 February 2022

⁵⁴ Record of Proceedings, [paragraph 43](#) – 14 February 2022

59. The CCERA Committee’s fuel poverty report recommended broadening Nest’s eligibility criteria to include households not in receipt of means tested benefits. This was echoed in local authority evidence to this inquiry suggesting more needs to be done to target in-work fuel poor homes.⁵⁵

60. EST called for better data on the characteristics of fuel poor households.⁵⁶ Warm Wales raised concerns over how income is calculated for the purposes of eligibility.⁵⁷

Energy Performance Certificates (EPCs)

61. Energy Performance Certificates (EPCs) are required for all UK homes being sold or rented. Valid for 10 years, they provide a rating from A to G.⁵⁸ A low household EPC rating is the second component used by the Programme to assess eligibility.

62. According to the Bevan Foundation, “the largest number of fuel poor households” and “almost half of fuel poor households” according to Audit Wales, live in D-rated properties. The Bevan Foundation also state that 74 per cent of E-G rated households are not in fuel poverty despite having relatively high energy costs.⁵⁹

63. Dr Donal Brown of the New Economics Foundation (NEF) highlighted a number of drawbacks regarding the EPC rating scheme and explained that EPCs were “never really designed to be this in-depth tool for us to understand the energy demand of our homes”.⁶⁰

The Welsh Government’s view

64. The Welsh Government told us that its consultation on the next iteration of the Warm Homes Programme “picked up on many of the lessons of the past” and that the consultation questions had been designed to “invite views and opinions regarding the purpose of the next iteration of the programme, the eligibility criteria to be used and the home energy efficiency measures to be provided to households through the programme.”⁶¹ They also acknowledged that “over-reliance on means tested benefits as a measure of low income” had “potentially excluded people living on lower incomes”.⁶²

⁵⁵ Written evidence, [Ynys Môn](#)

⁵⁶ Written evidence, [Energy Saving Trust](#)

⁵⁷ Written evidence, [Warm Wales](#)

⁵⁸ Gov.uk, [Buying or Selling your Home](#)

⁵⁹ Written evidence, [Bevan Foundation](#)

⁶⁰ Record of Proceedings, [paragraph 63](#) – 7 March 2022

⁶¹ Equality and Social Justice Committee, [Evidence paper from Welsh Government, item 2](#)

⁶² Equality and Social Justice Committee, [Evidence paper from Welsh Government, item 2](#)

65. In terms of the findings of the Auditor General’s report, the Welsh Government said that they had accepted its findings and recommendations and that there was “extensive collaboration” between both organisations to “learn the lessons from the current programme”.⁶³

66. On the issue of replacing gas boilers, the Minister’s paper stated that “installing an efficient gas boiler will provide a carbon saving, improve comfort and should help reduce the cost of maintaining a satisfactory heating regime.” An official for the Welsh Government expanded on this point in Committee and said that the replacement of boilers were “recommended measures that came out from the whole-house assessments” and that:

“[...] whilst it seems perverse to do that, does actually save energy and carbon emissions by putting in a more efficient gas boiler, and it does result in a saving in terms of those household bills—an average annual saving of about £300—and that’s what we need to develop going forward. But in terms of insulation, 97 per cent of households already in Wales have roof insulation. Now, there are some cases where that could be topped up, but 68 per cent of households in Wales have cavity wall insulation, so a number of those fabric-first measures are already in place, and that’s why the whole-house assessment is so important.”⁶⁴

Our view

The overarching Programme

The Warm Homes Programme has undoubtedly made a lasting and positive difference to the lives of participants in the scheme. Around 67,000 homes are now warmer, and more energy efficient than was likely to be the case without this intervention. Furthermore, the overarching aims of the Programme – to reduce fuel poverty and increase energy efficiency – are necessary and commendable. However, the extent to which the Programme has successfully delivered on these aims is debatable.

Learning the lessons

Some of the findings of the Auditor General’s report in particular, make for disappointing and frustrating reading. A lack of clarity about the core objectives of the Programme led to a drifting away from its original purpose until it became, for all intents and purposes, a gas boiler

⁶³ Equality and Social Justice Committee, [Evidence paper from Welsh Government, item 2](#)

⁶⁴ Record of Proceedings, [paragraph 87](#) – 21 March 2022

replacement scheme. While replacing an outdated or inefficient boiler will have yielded savings to that household, questions should have been asked about the long-term implications and viability of this practice. A shift away from the use of gas in order to meet our climate change obligations, and to improve our energy security, will be necessary in the coming decade and has been anticipated for some time. Recent gas price rises moreover, will leave households who have benefited from the Programme more vulnerable than would have been the case had different energy efficiency measures been prioritised.

The **scale, size, and purpose of the Programme failed to match the level of need** in our communities. For the Welsh Government to reach its targets for tackling fuel poverty there will need to be a step change in ambition and delivery. The next Programme will need to be on a significantly bigger scale if we are to meet our climate change targets and see sustained reductions in the levels of fuel poverty.

Aspects of the Programme's design, namely the grant cap, and the single application limit stifled a more holistic and effective 'whole-house approach' to energy efficiency. As a result households participating in the Programme were often left with an "either, or" choice of a new heating system (primarily gas and other fossil fuels), or insulation measures with insufficient funding for both. This is regrettable especially as in some cases it is likely that that insulation could have provided either a more cost-effective solution, or would have provided a necessary complement to maximise the benefit of a new heating system. We would like to see these issues addressed in the next Programme.

Recommendation 4. In the next iteration of the Warm Homes Programme, the Welsh Government should remove the single application cap and design a more intelligent means of limiting costs than the current arbitrary grant cap.

The **eligibility criteria were deficient, too restrictive and a poor indicator of being fuel poor**, meaning that the Programme did not always target the right people. This is likely to have left a number of fuel poor households ineligible for support. The exclusion of EPC rating D-properties, which are estimated to make up around half of all fuel poor households, will also need to be addressed. The next Programme will need to be smarter to ensure that support reaches the right people, particularly those who are in most need. As part of any changes, the next Programme should also consider the fairness of the criteria which bans all businesses of any size and that happen to be operating from a domestic property from being eligible for support. To help support small-scale and rural businesses that are run from a domestic property in particular, consideration should be given to introducing an appropriate turnover threshold, anything above which would be ineligible for support.

Recommendation 5. In the next iteration of the Warm Homes Programme, the Welsh Government should develop smarter, less restrictive eligibility criteria which ensure, as a minimum, that any household that meets the definition of fuel poverty is able to access support when needed. Any changes to the eligibility criteria should also consider:

- how EPC D- rated properties can be supported in future; and
- the introduction of a business turnover threshold (above which a primarily domestic household which is also registered as a business would become ineligible) to help support small-scale and rural businesses which are currently subject to eligibility restrictions.

The interventions adopted prioritised fossil fuel heating systems over other measures and included the wasteful and environmentally damaging practice of replacing, rather than fixing boilers, as standard. Although we acknowledge that support for new gas heating systems may need to continue in the short-term, the next Programme will need to be much greener and better align with our long-term climate change ambitions. This must include an acceleration of plans to transition to green alternatives such as air source heat pumps, including the development of associated skills.

In their evidence, the Welsh Government gave us assurances that lessons will be learnt and said that the consultation on the next iteration of the Programme took account of the lessons from the Audit Wales report. We expect these assurances to be backed up by action and a clear road map setting out the direction of travel.

Recommendation 6. The Welsh Government should learn the lessons of the Audit Wales report and set out in its response how it intends to ensure that the next iteration of the Warm Homes Programme is bigger in scale, smarter in who it targets and greener in its interventions.

Recommendation 7. The Welsh Government should set out its preferred legal mechanism for underpinning the next iteration of the Warm Homes Programme including how it will ensure that the Senedd and other stakeholders are able to scrutinise these robustly.

Recommendation 8. The Welsh Government should encourage boiler repair rather than replacement where possible, especially in instances where other measures such as draught exclusion and insulation have not been fully explored or where greener alternatives (such as air source heat pumps) are available.

4. Improving management and delivery of the Warm Homes Programme

Arbed and an area-based approach

67. The area-based Arbed scheme was blighted by performance issues. For example, the Auditor General's report found:

*"the Scheme experienced significant delays and considerably fewer fuel poor households received support than the Welsh Government wanted. While COVID-19 was a factor, the scheme was some way behind targets before the pandemic hit. The scheme aimed to target clusters of very energy inefficient homes in deprived areas. However, it is not clear how many such clusters still exist."*⁶⁵

68. The Auditor General found that changes made to the contract to speed up delivery had "limited impact" and that £7.5 million of European Structural Funds were decommitted from Arbed as the scheme was unable to spend its budget. The Welsh Government was also unable to shift this funding into the Nest scheme as the provider did not have the capacity to increase delivery. The report recommended that the Welsh Government review the "viability of the area-based approach used by the Arbed scheme" given its under-delivery.⁶⁶

69. As the Scheme was being wound up, the Welsh Government commissioned Miller Research to evaluate Arbed. Its report was published in February 2022.⁶⁷ The Arbed evaluation was unable to undertake a robust assessment of the impact the scheme had on levels of fuel poverty. This was due to a lack of pre-installation data relating to energy spend or household income as eligibility was not based on individual or household means.⁶⁸

70. Evidence to this inquiry indicated general support for an area-based scheme, despite reported shortcomings in Arbed delivery.⁶⁹ Jonathan Cosson of Warm Wales argued that some of the benefits of area-based schemes were greater community buy-in and economies of scale. Whilst acknowledging the impact of Brexit, and the pandemic, Mr Cosson described the gap

⁶⁵ Audit Wales, [The Welsh Government's Warm Homes Programme](#) – November 2021

⁶⁶ Audit Wales, [The Welsh Government's Warm Homes Programme](#) – November 2021

⁶⁷ Welsh Government/Miller Research, [Evaluation of Arbed 3](#) – 28 February 2022

⁶⁸ Welsh Government/Miller Research, [Evaluation of Arbed 3](#) – 28 February 2022

⁶⁹ Written evidence, [Care and Repair Cymru](#), [Bevan Foundation](#), [Energy Saving Trust](#), [Public Health Wales](#)

between the end of Arbed and its successor as “disappointing” and “a black hole now in terms of an area-based approach.”⁷⁰

71. NEA said that there were “considerable merits” for continuing an area-based approach which included:

- **Economies of scale:** as targeting is on an area basis, local installers can do work street by street, rather than pepper-potting across areas.
- **Neighbourhood impact:** households are more likely to take up the offer of energy efficiency improvements if their neighbours are also visibly taking up the offer themselves.
- **Economic benefits:** concentrating the energy savings in a discrete area could lead to more significant localised economic benefits. As energy costs reduce, spending power increases.⁷¹

72. One participant in our engagement work argued that the successor to Arbed should establish an “example village” blueprint whereby: “all properties which had received a suite of energy efficiency measures during the first phase, should be re-surveyed and a quality baseline identified. Additional measures, such as further panels, energy storage, insulation and resident engagement plans, could then be introduced during a second phase. The intention would be to establish a blueprint to follow in other areas.”⁷²

73. EST stated that “area-based schemes enable insulation improvements to be made in flats and terraces of houses that would either not be possible or much more difficult at individual property level.”⁷³ They highlighted the success of a scheme involving the Scottish Government and local authorities which has delivered improvements to over 100,000 households through an area-based approach since 2013.⁷⁴

Role of local authorities

74. The Arbed evaluation report found that local authority involvement had varied, partly due to capacity restraints, with some working proactively with Arbed and Byth while others had minimal involvement. Some local authorities expressed concern that the approach led by Arbed and Byth meant that they lacked control over schemes and would have preferred closer working,

⁷⁰ Record of Proceedings, paragraph 16 + 17 – 14 February 2022

⁷¹ Written evidence, [National Energy Action](#)

⁷² [Summary of engagement activity](#)

⁷³ Written evidence, [Energy Saving Trust](#)

⁷⁴ Written evidence, [Energy Saving Trust](#)

particularly in communications and engagement.⁷⁵ This was borne out in evidence we received when Ynys Môn County Council said:

*"It's fair to say that our relationship with Arbed am Byth has been sporadic, and it depends what data we have. In the past, we have worked closely on plans, but on other occasions we've had no involvement with plans, but we are there to be promoting them."*⁷⁶

75. Ynys Môn County Council stated that local authorities have lacked the resources to assist the Welsh Government on delivery of the Nest and Arbed schemes and that "revenue funding should be provided to local authorities to assist with future implementation" alongside better co-working and communication with local authorities more generally.⁷⁷

76. Local authorities involved in the Arbed evaluation described having to deal with the fallout when households were not given the full information on their eligibility from the outset. One local authority described this as the scheme having "over promised and under delivered."⁷⁸

Collaboration and partnership

77. Both Victoria Winckler and Jonathan Cosson argued for greater collaboration between the Government, local authorities and local community groups in the next iteration of the Programme. They emphasised the need for community buy-in and the role local communities working in partnership could have in securing this.⁷⁹

78. Similarly, Eiliw Llyr of Ynys Môn and Matthew Kennedy of the Chartered Institute of Housing Cymru identified strong and consistent engagement between different sectors – including local authorities, housing associations and third sectors – as a key feature for any successor scheme.⁸⁰

79. Dr Donal Brown of NEF pointed to use of community networks as an important lesson to learn for any successor scheme:

"In terms of the partnerships, local government obviously has a huge role. Some of the big private sector organisations are really important as well, some of the big manufacturers, and getting them onside. But also, really,

⁷⁵ Welsh Government/Miller Research, [Evaluation of Arbed 3](#) – 28 February 2022

⁷⁶ Record of Proceedings, [paragraph 128](#) – 14 February 2022

⁷⁷ Written evidence, [Ynys Môn](#)

⁷⁸ Welsh Government/Miller Research, [Evaluation of Arbed 3](#) – 28 February 2022

⁷⁹ Record of Proceedings, [paragraph 57-58 and 62](#) – 14 February 2022

⁸⁰ Record of Proceedings, [paragraph 161-166](#) – 14 February 2022

*community organisations. [...] The idea is using those community networks to build trust in a specific place—whether that's sports clubs, whether that's faith organisations, whether it's any particular grouping—and using those conversations as a way in to speak to people about this agenda, particularly thinking about minority groups and how you access them and build trust. I think that kind of community strategy is going to be important here, because obviously we're going into people's houses and mucking around with them, so you need to build the trusted relationships through those existing channels. I think that is an area that could be strengthened in future programmes, thinking about the community networks and how you engage with people.*⁸¹

A trusted brand?

80. Unlike Nest, the Arbed programme was not extended and came to an end in late 2021. Stakeholders outlined some of the impacts of this as a lack of confidence amongst consumers, a loss of trust in a known brand, and a setback in supplier/industry confidence.

81. We heard that both Nest and Arbed should be retained from a brand perspective so that future schemes benefit from existing brand recognition.⁸²

Procurement and contract issues

82. The Auditor General's report found that only limited benchmarking was undertaken before awarding the Nest and Arbed contracts and that "future contracts need to be tightened to seek greater consistency on costs and incentivise better value for money".⁸³ When awarding the contracts, the Welsh Government only received two bids for each scheme, which hampered opportunities to benchmark.⁸⁴

83. There were "significant differences" in how much the two schemes charged the Welsh Government to supply and fit the same energy efficiency measures.⁸⁵ The report cautioned that:

"There are also risks to value for money from the way the contracts specify what work contractors need to do to get paid. In particular, contractors can potentially claim full fixed payments for lighting or water measures when only

⁸¹ Record of Proceedings, paragraph 85 – 7 March 2022

⁸² Written evidence; Record of Proceedings, ~~paragraph 211~~ – 7 March 2022

⁸³ Audit Wales, ~~The Welsh Government's Warm Homes Programme~~ – November 2021

⁸⁴ Equality and Social Justice Committee, ~~Evidence paper from Welsh Government, item 2~~

⁸⁵ Audit Wales, ~~The Welsh Government's Warm Homes Programme~~ – November 2021

installing a few light bulbs or aerators on taps as part of a wider package of energy efficiency measures.”⁸⁶

84. The Committee wrote to British Gas/Centrica on this specifically, to which they replied: “all of the current prices submitted by Nest were reviewed and approved by the Welsh Government at the time of Tender submission for Nest 2.”⁸⁷

85. Both the Auditor General and the CCERA Committee reports highlighted a lack of robust monitoring data as flaws in the Programme. The CCERA Committee described the lack of monitoring data as a “serious concern” and called for “a robust monitoring and evaluation framework” to evaluate the impact of the scheme.⁸⁸ Similarly, the Audit Wales report stated that increased scrutiny of delivery, closer monitoring of contract compliance and better management information was needed.

86. Poor quality installations had damaged people’s homes in previous iterations of the Arbed programme and Audit Wales found that the Welsh Government had learnt from this by hiring an independent company to do checks on installations and verify performance data. The report however found a backlog in inspections and that “some elements of the quality assurance and audit function have not been fully delivered to date.”⁸⁹

Accessibility and barriers to entry

87. Warm Wales highlighted barriers with the Nest application process. Despite the fact that households with complex needs have priority status, Warm Wales suggested they are struggling to access support due to the complexities of the (Nest) process, raising questions over the equality and accessibility of the support.⁹⁰ Warm Wales advocated a single point of contact for households.

88. Poor communication was a theme in the one-to-one interviews and focus groups conducted as part of our inquiry. Many felt that Arbed had been unable to provide transparent justification for decisions taken, particularly when some would benefit from the scheme, whilst others in similar circumstances would not.

89. One contributor from Conwy who had accessed the Arbed scheme said:

⁸⁶ Audit Wales, [The Welsh Government’s Warm Homes Programme](#) – November 2021

⁸⁷ Equality and Social Justice Committee, [Letter from Centrica regarding the Fuel Poverty and Warm Homes Programme inquiry](#) - 20 April 2022

⁸⁸ Climate Change, Environment and Rural Affairs Committee, [Report on fuel poverty in Wales](#) – April 2020

⁸⁹ Audit Wales, [The Welsh Government’s Warm Homes Programme](#) – November 2021

⁹⁰ Written evidence, [Warm Wales](#)

"People were just desperate to get something and again, communication with Arbed was awful. Houses on certain streets were offered solar panels. They were initially putting ten to twelve on some houses. They then scaled that down and capped it at eight, after they'd already fitted ten to twelve on some properties ... so that caused difficulties because some had more than others ... to be honest, it really felt like they didn't know what they were doing."

90. A participant highlighted in Case Study B said: "... they wouldn't reply to e-mails, they would only speak on the phone, they wouldn't put anything in writing. They dragged and dragged their heels."⁹¹

91. Stakeholders said that the cost of enabling works can be prohibitive for those on lower incomes. NEA Cymru and the EST identified examples, including the cost of obtaining an EPC, rewiring a property and improving the connection to the electricity grid. There are also the follow-on costs of redecorating, annual servicing and maintenance costs.⁹²

92. Warm Wales reported that the advice line did not always provide the support required to overcome such barriers and raised concerns over referrals being cancelled as applicants were unable to fully engage.⁹³ Jonathan Cosson added that the successor scheme needed "a more concise and smoother flow of information between Nest and the homeowner," and a "more proactive service".⁹⁴

The Welsh Government's view

93. Greater collaboration was identified by the Minister as key to the success of the next Programme. In terms of the role of local authorities, the Minister acknowledged that levels of engagement between authorities and the Programme varied. In the successor Programme she wanted the relationship with local authorities to be "hand in glove".⁹⁵

94. On reimbursing the cost of enabling works, the Minister told us that the Welsh Government agrees that inadequate financial support can be a barrier to helping people most in need and will be considered as part of the work on the next iteration of the Programme.⁹⁶

⁹¹ [Summary of engagement activity](#)

⁹² Written evidence, [National Energy Action, Energy Saving Trust](#)

⁹³ Written evidence, [Warm Wales](#)

⁹⁴ Record of Proceedings, [paragraph 47 – 50](#) – 14 February 2022

⁹⁵ Record of Proceedings, [paragraph 37](#) – 21 March 2022

⁹⁶ Equality and Social Justice Committee, [Evidence paper from Welsh Government, item 2](#)

95. On procurement, the Minister told us that the Welsh Government was working with the Buildings Research Establishment to examine the current market in the hope of having a much wider range of bidders for the procurement of successor schemes.⁹⁷

Our view

Arbed and an area-based approach

On the successor to Arbed, we note that on balance the evidence was in favour of retaining an area-based approach to run alongside a demand-led scheme. Among the advantages of an area-based approach highlighted were: economies of scale, better neighbourhood impact and community buy-in and – if procured well – potential economic benefits to local communities. Furthermore, interventions on certain types of buildings, for example exterior wall insulation on a block of flats or terrace, require an area-based approach.

In general, **we are disappointed that the Arbed scheme under-performed and under-delivered.** Nothing illustrates this point more than the £7.5 million of European Structural Funds that were returned to the Welsh Government, unspent, by Arbed.

In preparing for a new area-based scheme, our work has found that a much greater emphasis on collaboration and partnership working between the scheme, local authorities, community groups, and others will be needed. Any new area-based scheme needs a community engagement strategy to ensure that local communities feel a much stronger sense of buy-in. We also think that an “example village” approach whereby an area-based scheme targets an entire village in order to establish quality baselines and a blueprint for other towns and villages should be explored further. We are aware of international best practice that Wales could learn from such as Freiburg in Germany.

The evaluation of Arbed showed that levels of engagement by local authorities with the scheme were inconsistent and usually seen as an “add on” to the day job rather than a demonstration of partnership working. The new scheme should engage consistently with local authorities and work in true partnership with them on aspects of delivery such as promotion, identifying areas, advocacy of the scheme and dovetailing with other local services. A proportion of the scheme’s management funding could be ring-fenced to support such partnership working, if necessary.

⁹⁷ Record of Proceedings, [paragraph 51](#) – 21 March 2022

Recommendation 9. The Welsh Government should ensure that a future area-based scheme prioritises collaboration and partnership working between the scheme, local authorities, community groups and others.

Recommendation 10. The Welsh Government should publish an assessment of the advantages and disadvantages of piloting the “example village” approach of targeting a village in its entirety in order to establish a blueprint for other towns and villages to emulate. This assessment should include existing research and examples of international best practice.

Recommendation 11. The Welsh Government should ensure that a future area-based scheme develops a community engagement strategy to ensure that the benefits of existing networks are maximised, and that local communities feel a much stronger sense of buy-in.

Procurement and contract issues

The procurement process for the current Warm Homes Programme had a number of shortcomings according to the Audit Wales report. Only very limited benchmarking was undertaken prior to the awarding of contracts, and only two bids for each were received.

The audit of the management of the scheme itself found numerous shortcomings including: a lack of consistency on costs; inadequate monitoring of contract compliance; and an absence of robust monitoring and evaluation data. The lack of contract compliance data and monitoring offers a partial explanation as to why flaws in the Programme’s design were allowed to continue without sufficient oversight or robust challenge for the duration of the Programme. This needs designing out of the successor programme. The Welsh Government’s consultation⁹⁸ states that it envisages a “phased approach” which takes account of factors which may change or are beyond its control such as technological innovation, costs, and affordability. What this means in practice is unclear, and is likely to be shaped in part by the length and duration of the next Programme. We endorse the aim of a phased approach and would urge the Welsh Government to consider periodic reviews of the Programme to ascertain whether it is delivering against its objectives. While it is ultimately up to the Welsh Government to determine the sequencing we would expect that one would take place at the half-way point as a minimum.

Recommendation 12. The Welsh Government should ensure that the next iteration of the Warm Homes Programme includes a robust data collection, monitoring, and evaluation

⁹⁸ See [Welsh Government consultation on the next iteration of the Warm Homes Programme](#).

framework which will aid the contract management and compliance process and enable better measurement of outcomes and regular audit.

Recommendation 13. The Welsh Government should clarify how it intends its “phased approach” in the next Warm Homes Programme to work in practice. We recommend that the phased approach is accompanied by periodic reviews to ascertain whether the Programme is delivering against its objectives. The number and sequencing of any such periodic review would depend partly on the length and duration of the Programme, however, we would expect one to take place at the half-way point as a minimum.

Recommendation 14. The Welsh Government should set out in its response to this report what action it has taken to ensure that the mistakes made as part of the procurement and contract management of the current scheme cannot be repeated in another government procurement exercise or scheme in future.

Some improvements between Arbed 2 and the current Arbed 3 scheme were identified in the Audit Wales report. For example, unlike in previous iterations, an independent company was tasked with quality assurance in the form of checks on installations and verify performance data.

Recommendation 15. The Welsh Government should ensure that the next iteration of the Warm Homes Programme has a fit-for-purpose regime for quality assurance, which includes:

- a programme of post-installation checks to be undertaken by an independent third party; and
- robust processes for gathering, collecting, analysing and storage of performance data.

Accessibility of the Programme

As a Programme that targets potentially vulnerable families and households, it is critically important that information, help, and support is provided in accessible formats to suit the needs of different audiences. It was disappointing to receive evidence from users who found Nest overly complicated and difficult to navigate. Advice provided by Nest should include proactive signposting of other government help and support, and consideration should be given to a case-load approach to handling user journeys.

The so-called enabling work that wraps around the process of an energy efficiency improvement, such as redecorating, also needs to be looked at. Some low-income households

were made to foot bills for large unforeseen costs. The successor scheme should look to cover these costs in the case of the lowest-income families; and in all circumstances ensure that participants are aware of any hidden costs that they will be liable for up front.

Recommendation 16. The next iteration of the Warm Homes Programme should look to cover the cost of 'enabling works' such as redecoration especially in the case of the lowest-income families, and ensure that all participants in the scheme are aware of any hidden costs that they will be liable for up front.

5. Decarbonisation and future schemes

The transition to a zero carbon Wales is one of the greatest challenges of the years and decades ahead. Leadership from government, especially when making difficult choices, will be essential.

Decarbonisation of housing

97. The Welsh Government's Net Zero Wales Plan states that the next iteration of the Warm Homes Programme will include low carbon heat as a key element.⁹⁹ In its consultation on a new Programme, the Welsh Government notes advice from the Climate Change Committee (CCC) which expects the most rapid emissions reductions to occur in the decade after 2025 as low carbon technologies will not have scaled up sufficiently before then.¹⁰⁰

98. In 2021, the Future Generations Commissioner published a joint report with the New Economics Foundation (NEF) exploring financing options for the decarbonisation of homes in Wales.¹⁰¹ It highlighted that 10 per cent of Wales' carbon emissions come from the residential sector. Decarbonising Wales' housing stock at the scale needed will require significant investment and increased coordination between all. It suggested a national decarbonisation programme will require £14.75bn investment over the next decade (to 2030), broken down to:

- £5.5bn for social housing;
- £4.8bn for homes in fuel poverty; and
- £4.4bn for homes in the owner occupied and private rented ('able to pay') sectors.

99. Of this £14.75bn of investment needed to decarbonise and improve the quality of Welsh homes, the report suggests £3.6bn should come from the UK Government and £1.7bn from the Welsh Government, with 64 per cent of total investment coming from private finance, energy companies or self-funding by property owners. It points out:

⁹⁹ Welsh Government, [Net Zero Wales Carbon Budget 2 \(2021-25\)](#)

¹⁰⁰ Wels Government, [Improving home energy efficiency to support a just transition and greener Wales](#) - December 2021

¹⁰¹Future Generations Commissioner/New Economics Foundation, [Homes fit for the Future: The Retrofit Challenge](#)

*"Based on existing investment plans and policy proposals there are currently large funding gaps for social housing (£2.7bn) and homes in fuel poverty (£3.9bn) which are privately rented and owner occupied to meet the level of EPC 'A' by 2030."*¹⁰²

100. The report predicted that a nationwide retrofit programme could eradicate fuel poverty and reduce needless energy costs, saving a total of £8.3bn in fuel costs by 2040 and creating 26,500 jobs.¹⁰³

101. NEA said that fabric upgrades to the home, like wall or loft insulation, which were possible but rarely used under the current programme, could "make a permanent solution to lower bills".¹⁰⁴

102. The Future Generations Commissioner highlighted that investing in homes could benefit people's health too, suggesting long term gain and cost savings for the NHS.¹⁰⁵ The Commissioner argued for better alignment of policy with the Well-being of Future Generations Act:

*"The Government do have obligations under the Future Generations Act to demonstrate how they're doing the things that best meet the well-being objectives that they've set, which prevent problems from occurring or getting worse, which are long term and which are integrated. And I would say that this is a prime policy area and the things that we're proposing in our report absolutely tick all of those boxes. So, it comes down to some brave decision making. If you wanted to be really out there, you could say, 'Top-slice the NHS budget and invest some of that money into this area.' However, I doubt that that would be politically palatable. But, if we're actually looking at the data around where people's health is improved and what the key factors in health are, there's a lot of strong evidence to suggest that investing in improving the quality of people's homes actually has much bigger, longer term benefits."*¹⁰⁶

¹⁰² Future Generations Commissioner/New Economics Foundation, [Homes fit for the Future: The Retrofit Challenge](#)

¹⁰³ Future Generations Commissioner/New Economics Foundation, [Homes fit for the Future: The Retrofit Challenge](#)

¹⁰⁴ Written evidence, [National Energy Action](#)

¹⁰⁵ Record of Proceedings, [paragraph 14](#) – 7 March 2022

¹⁰⁶ Record of Proceedings, [paragraph 97](#) – 7 March 2022

Decarbonisation of housing and the Welsh Government's consultation

103. Central to the Welsh Government's plans for the next iteration of the Warm Homes Programme, as outlined in its recent consultation, is the idea of ensuring a "just transition to affordable low carbon heating for all households in Wales. This can be achieved through improving the energy and thermal efficiency of our homes and reducing our reliance on the domestic burning of fossil fuels."¹⁰⁷

104. The Welsh Government's consultation on the next iteration of the Warm Homes Programme suggests that a "phased" or "transitional" approach will be necessary to replacing fossil fuel burning boilers. They highlight three reasons:

- **Innovation:** decarbonisation will require new innovative technologies and services for energy and heat generation, delivery, storage and payment and it would be unwise to lock the Programme into a single pathway prematurely;
- **Balancing Fuel Poverty and Low Carbon Heating:** and the need to consider the tension between fuel poverty and decarbonisation objectives; and
- **Costs and Affordability:** flexibility will be required to ensure that householders are not locked into outdated heating technologies, or newer lower carbon heating technologies which can incur excessive running costs in the current domestic energy market.¹⁰⁸

'Fabric first' approach

105. A number of stakeholders emphasised the need for a 'fabric first' approach in the next iteration of the Programme, and this was reflected in the Welsh Government's consultation proposals. A 'fabric first approach' means that the energy needed to warm the home is minimised through measures that reduce heat loss and better regulate warming and cooling of the home.¹⁰⁹

106. Data on insulated properties by tenure collated via the Welsh Housing Conditions Survey suggests that: 100 per cent of social housing has some roof insulation with private rented

¹⁰⁷ Welsh Government, [Improving home energy efficiency to support a just transition and greener Wales](#). - December 2021

¹⁰⁸ Welsh Government, [Improving home energy efficiency to support a just transition and greener Wales](#). - December 2021

¹⁰⁹ www.carbonfutures.co.uk/view-service/fabric-first-solutions#:~:text=A%20'fabric%20first'%20approach%20to,or%20electrical%20building%20services%20systems.

uninsulated cavity walls; the proportion is similar across all tenures. The private rented sector has the highest proportion of uninsulated solid walls at 39 per cent.¹¹⁰

107. Ynys Môn County Council, Warm Wales, the Energy Saving Trust, NEA and Community Housing Cymru all advocated a greater emphasis on a “fabric first approach” in future.¹¹¹

Decarbonisation versus tackling fuel poverty

108. The Welsh Government states that understanding the impact of decarbonisation on fuel poor households will be key as it looks to develop “a clear pathway” to low carbon heating between now and the late 2020s. For the new Programme, its consultation asks whether social justice objectives or climate emergency objectives should take precedence.¹¹²

109. The Bevan Foundation argued that a single programme cannot have the dual aim of reducing fuel poverty and decarbonising homes, stating:

“Whilst the two objectives are clearly linked, we believe that the Warm Homes Programme was undermined by not having a clear aim. As a result, the programme did not adequately meet either objective.”¹¹³

110. They suggested the development of two programmes – one to focus primarily on decarbonising housing, and the second to focus specifically on fuel poverty. The first should be open to all households living in energy inefficient homes, and provide financial assistance and advice. The second should focus on measures beyond retrofitting properties, ensuring households that have taken every available measure to improve energy efficiency but still struggle with energy costs are provided with assistance.

111. However, the Future Generations Commissioner and Dr Donal Brown of the NEF both argued that longer-term there would be a greater convergence between tackling fuel poverty and decarbonisation and emphasised the need for an integrated, holistic approach.¹¹⁴ Jack Wilkinson-Dix of the Energy Saving Trust also refuted the suggestion that decarbonisation and tackling fuel poverty were in opposition to each other stating that the two ambitions were

¹¹⁰ Statistics for Wales, [Welsh Housing Conditions Survey 2017-18: headline report \(updated\)](#)

¹¹¹ Written evidence, [Ynys Môn, Warm Wales, Energy Saving Trust, National Energy Action, and Community Housing Cymru](#)

¹¹² Welsh Government, [Improving home energy efficiency to support a just transition and greener Wales](#) - December 2021

¹¹³ Written evidence, [Bevan Foundation](#)

¹¹⁴ Record of Proceedings, [paragraph 155](#) – 7 March 2022

“aligned” and that “the need to improve the energy efficiency and insulation of all properties, regardless of their heating system means that, they’re actually very closely aligned.”¹¹⁵

112. Ben Saltmarsh of NEA outlined their concerns about any future scheme that fails to make tackling fuel poverty the highest priority alongside decarbonisation. He told us:

*“What we wouldn't support is potentially having a decarbonisation programme on the one side, as I believe it may have been proposed elsewhere, focused on decarbonising all homes, housing for everybody, potentially including fuel-poor households, and then kind of have a separate programme that tries to provide some additional advice and support to fuel-poor households over here that is quite disconnected. Because even if that first programme, the programme that is decarbonisation focused, included fuel-poor households and required them to make no financial contributions, even if it then went on to help others, even if they made them more able to pay contributions themselves, it doesn't prioritise those who need it the most, who need this now. It doesn't prioritise fuel-poor households living in the least efficient homes where these are destroying their lives and their experience of home. So, any support for others can't come at the expense of fuel-poor households...”*¹¹⁶

Skills and workforce

113. The lack of a green skilled workforce in Wales at the scale required to meet the challenge of decarbonising Wales’ housing stock and meeting the net zero target was highlighted in the evidence.

114. NEF said that a long-term strategy was critical and would not only to send a signal to consumers, but also to industry to invest in the supply chain.¹¹⁷ CIHC said forward thinking was needed about the kind of technology that will be used, and why, and developing a planned approach to training the workforce.¹¹⁸

115. Jonathan Cosson of Warm Wales told us that Wales currently does not have people with the right skills and the capacity to deliver on its fuel poverty and decarbonisation ambitions.¹¹⁹

¹¹⁵ Record of Proceedings, [paragraph 215](#) – 7 March 2022

¹¹⁶ Record of Proceedings, [paragraph 211](#) – 7 March 2022

¹¹⁷ Record of Proceedings, [paragraph 9](#) - 7 March 2022

¹¹⁸ Written evidence, [Chartered Institute of Housing Cymru](#)

¹¹⁹ Record of Proceedings, [paragraph 105](#). – 14 February 2022

Jack Wilkinson-Dix of EST similarly said, that given the scale of the challenge, much more needed to be done to improve skills and prepare the workforce.¹²⁰

116. Ben Saltmarsh of NEA highlighted the need for the Welsh Government set interim targets to give industry and supply chains the confidence they need. Mr Saltmarsh advocated a statutory scheme set out in legislation (rather than Welsh Government guidance). He argued that this would give households, partner organisations and industry the confidence it needs “year-in, year-out”.¹²¹

117. Sophie Howe echoed the need for a long-term plan to give businesses the confidence to invest in skills and the workforce. She emphasised the importance of a joined-up approach:

“From a Welsh perspective, certainly, we need to be working through very closely with the work that's been going on in terms of foundational economy and really plotting out who are the Welsh organisations out there who are doing this work, could increase the scale and pace at which they do this work, what sort of help do they need to do that, who are the very small enterprises who could be having assistance to do more of this work, and so on. And that's why the kind of join-up across Government departments and policies is really important on this.”¹²²

118. The Net Zero Wales Plan proposed a net zero skills action plan, but this has yet to be produced. On 8 March the Welsh Government’s Plan for Employability and Skills referred to a net zero skills plan being published later in 2022.¹²³

Funding and environmental levies

119. The joint report by the Future Generations Commissioner and the NEF calculated that at least £73m per annum was required to fund the energy efficiency of every house in Wales, until 2030, with the money front loaded to the first half of the decade. However, the Welsh Government budget allocates a total of £100m for the next three years, at £30m, £35m and £35m per annum.¹²⁴

¹²⁰ Record of Proceedings, [paragraph 224-226](#) – 7 March 2022

¹²¹ Record of Proceedings, [paragraph 228-230](#) – 7 March 2022

¹²² Record of Proceedings, [paragraph 82](#) – 7 March 2022

¹²³ Welsh Government, Stronger, fairer, greener Wales: a plan for employability and skills – March 2022

¹²⁴ Welsh Government, Budget 2022-23

120. Dr Donal Brown said that expecting the social housing sector to supplement government grants with low cost debt financing was fraught with problems as they are already quite indebted, so other solutions have to be devised:

"We were presented with this wicked problem of, 'We can't take on debt, Government's not willing to fund more, so what do we do?' So, the idea is we create a third body that is potentially owned and underwritten by Welsh Government and also by the housing associations and the local authorities who still own stock. And that could actually, if it was sufficiently large—[...]—it could actually raise its own bonds in bond markets; issue, basically, green bonds. If it was underwritten by Government, it could raise that finance very cheaply, akin to a Government bond, so 1 per cent or 2 per cent interest. And using that, with a combination of that and grant funding and something called energy performance contracting—where you basically guarantee energy savings. It's been trialled in social housing around Europe; you could fill some of the funding gap for social housing in that way, and there is precedent for it."¹²⁵

121. Dr Donal Brown argued that the environmental levies charged on electricity bills "are disproportionately paid by people on the lowest incomes" and make up around 20 per cent of an electricity bill. In order to alleviate the current crisis in energy costs and fuel poverty Dr Brown suggested shifting the levies to general taxation as a short term measure.¹²⁶

122. NEA and the EST supported moving the environmental levies from electricity bills to general taxation. Jack Wilkinson-Dix of EST told us that the environmental levies were "holding back the installation of low-carbon electric heating in general" and that moving the levies to general taxation would "immediately see the cost of heat pumps and electricity for heating come right down, which would make them cost competitive with gas in almost all circumstances."¹²⁷

123. The Minister's paper confirmed that the Welsh Government has written to HM Treasury calling on the UK Government to remove the social and environmental costs added to domestic energy bills.¹²⁸ The Welsh Government argued that these should be paid for from general taxation.

¹²⁵ Record of Proceedings, [paragraphs 40-41](#) – 7 March 2022

¹²⁶ Record of Proceedings, [paragraph 62](#) – 7 March 2022

¹²⁷ Record of Proceedings, [paragraph 200, 207](#) – 7 March 2022

¹²⁸ Equality and Social Justice Committee, [Evidence paper from Welsh Government, item 2](#)

Our view

Over the next decade or so, many aspects of our lives will be affected by the transition to net zero. The changes that will need to be made to the country's stock of housing, across all ages and tenure types will be significant. The next Warm Homes Programme will have an important role to ensure that low or zero carbon solutions in people's homes are delivered in a way that is fair, effective and just.

Fabric first

As noted in previous chapters, there has been a heavy reliance on boiler replacement in the current Programme, to the detriment of boiler repair, 'fabric first' improvements and alternative or renewable heating systems. The Welsh Government's consultation suggests that the successor Programme will move away from the current practice and instead commit to a "principled fabric and 'worst first' approach to housing retrofit". We welcome this change and note that this would bring the successor scheme into line with stakeholder preferences.

Recommendation 17. The Welsh Government should embed the 'fabric and worst first' approach to retrofitting, targeting the poorest households in the least fuel efficient homes, into the core principles of the next iteration of the Warm Homes Programme.

Decarbonisation

We warmly welcome the joint work of the Future Generations Commissioner and the New Economics Foundation on decarbonisation and retrofit. It is an important contribution to the debate and sets out a positive vision of how Wales could be at the forefront of a Green Industrial Revolution.

There are opportunities as well as risks for the workforce in Wales. The opportunity to create large numbers of new, highly skilled jobs is counteracted by concerns regarding labour shortages, and the capacity of trainers to meet demand.

A clear message from the evidence we gathered was the need for the Government to set out a long-term strategy, to act as a signal for businesses and individuals to invest in the skills, training, and supply chains needed to turn vision into reality. While there is some uncertainty regarding the technological solutions that will ultimately be adopted – the work of preparing a long-term strategy can, and should, begin now. To provide industry with certainty and clarity on

skills, the Welsh Government's Net Zero Skills Action Plan should be published as soon as possible.

Recommendation 18. The Welsh Government should work with the sector to formulate a clear, long-term strategy for decarbonisation with the aim of giving industry the confidence it needs to invest in skills, technology and people.

Recommendation 19. The Welsh Government should update the Senedd and this Committee on progress towards publication of its Net Zero Skills Action Plan and should look to publish it as soon as possible and no later than the start of the Senedd's planned Summer Recess in July 2022.

On funding for a future fuel poverty and decarbonisation programme, we note that the Future Generations Commissioner and NEF joint report suggests a budget of £732 million over ten years 2020-2030. This is equivalent to £73 million per annum and considerably more than the £100 million over three years that the Welsh Government has allocated. These allocations were decided prior to the rocketing of natural gas prices which coincided with the invasion of Ukraine. As natural gas prices are likely to remain high for the foreseeable future it would be useful to know whether the Government plans to re-evaluate its spending allocations and in particular whether more money is needed to improve energy efficiency and reduce demand.

Recommendation 20. With the potential for gas prices to continue to rise for the foreseeable future, amidst renewed concerns regarding the security of energy supplies, the Welsh Government should identify the funding required to respond by reviewing the sufficiency of its spending allocations for energy efficiency in housing. This review should identify any actions or activities that can be prioritised, scaled up, or accelerated to both reduce demand and increase efficiency and be completed by December 2022.

6. The challenges in rural areas and the private rented sector

Rates of fuel poverty are higher in rural Wales than in the cities. The age profile of rural properties also makes them harder to retrofit.

Landlords in the private-rented sector have little incentive to improve the energy efficiency of their properties; but this inaction is likely to cause considerable damage to the health and well-being of tenants.

The challenge in rural areas

124. Fuel poverty is dispersed across rural Wales where there is a higher proportion of energy inefficient solid-wall and off-grid properties. Welsh Government figures show significant variations in rates of fuel poverty by local authority, see **Fuel Poverty by Local Authority Wales, 2018**.

125. Higher rates of fuel poverty were highlighted in the evidence.¹²⁹

126. Audit Wales' 2019 fuel poverty report states that almost a third of Wales' rural households use off-grid oil as their main heating fuel, which is more expensive than mains gas.¹³⁰

127. The Future Generations Commissioner, Sophie Howe, said that rural local authorities like Carmarthenshire, Powys, Conwy, Denbighshire and the Vale of Glamorgan were highlighting fuel poverty "very clearly as an issue" in preparing their revised well-being assessments.¹³¹

¹²⁹ Record of Proceedings, paragraph 147-148 – 7 March 2022

¹³⁰ Audit Wales, **Fuel Poverty** – October 2019

¹³¹ Record of Proceedings, paragraph 69 – 7 March 2022

128. Jonathan Cosson of Warm Wales underlined the challenges to improving energy efficiency in rural areas. He stated that a workforce with the right skills tends to concentrate on urban areas where there are better supply chains. Identifying the properties most in need of support was also more difficult in rural areas and that local authorities “don’t necessarily know the stock levels and the people that need assistance in their areas.”¹³²

129. Matthew Kennedy of CIHC identified the “accessibility and availability of contractors and services, and the potential for increased costs” as challenges to tackling rural fuel poverty.¹³³

130. The WLGA estimated there are around 90,000 households in rural Wales who rely on oil central heating, including some that are not connected to mains gas or electricity grids.¹³⁴

131. The Bevan Foundation said that many rural properties are off-grid, detached and/or constructed in a way that make it difficult to improve their energy efficiency. They argued that one solution would be for the Welsh Government to prioritise the installation of new technologies such as heat pumps in off gas communities.¹³⁵

132. The NEF suggested it cost upwards of £25,000- £30,000 for fabric improvements and an air source heat pump for an off-gas grid property.¹³⁶ Under the current Programme, the maximum funding available to an off-gas household is £12,000. NEF called for better data on rural fuel poor homes, the types of housing, the types of interventions needed to bring them out of fuel poverty, and an engagement strategy that can deal with their relative isolation.

Private rented sector

133. Current provision to improve energy efficiency in the private rented sector is acknowledged to be insufficient. The official evaluation of Arbed said:

“The Arbed 3 programme has placed very little focus on the Private Rented Sector, despite an area-based approach being ownership agnostic in theory. It is estimated that some four percent of households receiving measures have been in the sector, despite this accounting for an estimated 20 percent of fuel poor households across Wales, compared with 11 percent of owner-occupied households.”¹³⁷

¹³² Record of Proceedings, [paragraph 68](#) – 14 February 2022

¹³³ Record of Proceedings, [paragraph 193](#) 14 February 2022

¹³⁴ Written evidence, [WLGA](#)

¹³⁵ Written evidence, [Bevan Foundation](#)

¹³⁶ Future Generations Commissioner/New Economics Foundation, [Homes fit for the Future: The Retrofit Challenge](#)

¹³⁷ Welsh Government/Miller Research, [Evaluation of Arbed 3](#) – 28 February 2022

134. Forty three per cent of privately rented properties in Wales were built prior to 1919.¹³⁸

Matthew Kennedy of CIHC recognised that the private rented sector was in a much worse state than other types of housing, particularly social housing.¹³⁹ The CIHC suggested that the cost of improving the energy efficiency of privately rented properties are likely to be prohibitive for some landlords, especially smaller landlords who are less likely to be able to carry risk.¹⁴⁰

135. Victoria Winckler argued that poor energy efficiency in the private-rented sector should be tackled through better standards and highlighted recent research which found little correlation between a home's EPC rating and market rent which meant there is little financial incentive for landlords to make their properties more energy efficient.¹⁴¹ Dr Winckler argued that "not covering all tenures and all circumstances in the same way" the Arbed scheme had increased inequalities.¹⁴²

136. Jonathan Cosson said that the "private rented sector is probably the one that gets left behind, because it's the hardest to work alongside" and argued for a mixture of better standards and incentives such as grants and loans to improve energy efficiency in the sector.¹⁴³

137. Dr Donal Brown of the NEF advocated a 'carrot, stick, and tambourine approach' involving government funding (in the form of low cost loans), new regulations to drive up standards, and targeted outreach (the tambourine) whereby governments (especially local authorities) work with landlords on solutions.¹⁴⁴

138. EST emphasised that priority should be given to tackling the private rented sector as this was the "worst-performing sector in terms of energy efficiency" but acknowledged it was the "most challenging sector given the limited powers Welsh Government has over it."¹⁴⁵ Jack Wilkinson-Dix on behalf of EST called on the Welsh Government to consider interest-free loans for landlords in the private rented sector to fund energy efficiency measures, renewable generation and storage. Mr Wilkinson-Dix said that a Scottish Government scheme that EST is involved in "had proven effective".¹⁴⁶

139. Smart Energy GB said smart meters can help customers better manage their energy consumption and bills but noted "consistently low ownership of smart meters amongst

¹³⁸ Welsh Government, [Welsh Housing Conditions Survey 2017-18: headline report \(updated\)](#)

¹³⁹ Record of Proceedings, [paragraph 177](#) – 14 February 2022

¹⁴⁰ Written evidence, [Chartered Institute of Housing Cymru](#)

¹⁴¹ Record of Proceedings, [paragraph 74](#) – 14 February 2022; Written evidence, [Bevan Foundation](#)

¹⁴² Record of Proceedings, [paragraph 83](#) – 14 February 2022

¹⁴³ Record of Proceedings, [paragraph 76](#) – 14 February 2022

¹⁴⁴ Record of Proceedings, [paragraph 102-103](#) – 7 March 2022

¹⁴⁵ Written evidence, [Energy Saving Trust](#)

¹⁴⁶ Record of Proceedings, [paragraph 193](#) – 7 March 2022

renters".¹⁴⁷ They highlighted that landlords and letting agents "struggle to understand how or why they need to make their property more energy efficient, and why they would engage with their tenant on energy, as this has traditionally been the responsibility of the tenant."¹⁴⁸ They suggest using Rent Smart Wales to disseminate advice to landlords on smart meter installation and energy efficiency; and advice to tenants on the support available for those at risk of fuel poverty.

140. Ynys Môn highlighted that the private rented sector have "the largest proportion of the most energy inefficient F and G-rated properties at 6.3%" and that this compared with "0.7% of social housing."¹⁴⁹

Minimum Energy Efficiency Standards (MEES)

141. The Minimum Energy Efficiency Standard (MEES) of a privately rented property in England and Wales is currently set at EPC E. The UK Government consulted on raising this minimum standard to EPC C- by 2028. The consultation closed in January 2021.¹⁵⁰

142. CIHC highlighted MEES as a "baseline that landlords have to work towards" but added that "there is a risk that given the costs that achieving MEES could entail, landlords become unwilling to invest additional finance in improving a property beyond this."¹⁵¹

143. Care and Repair Cymru said that private rented properties "were among the lowest standard" and that "better regulatory protection for tenants alongside better enforcement of existing regulations such as MEES standards could help to alleviate this."¹⁵²

144. NEA called for the UK Government to fully adopt the tougher EPC C- by 2028 target and for proper enforcement of the regulations. They called for access to funding for private landlords to meet the EPC C target and highlighted a Home Upgrade Grant (HUG) scheme in England as a potential model.¹⁵³

The Welsh Government's view

145. The Minister acknowledged the higher rates of fuel poverty in rural areas and stated that the current Programme makes provision for additional funding for homes not connected to the mains gas grid. Other measures highlighted as benefitting rural areas included changes to the

¹⁴⁷ Written evidence, [Smart Energy GB](#)

¹⁴⁸ Written evidence, [Smart Energy GB](#)

¹⁴⁹ Written evidence, [Ynys Môn](#)

¹⁵⁰ HM Government, [Improving the energy performance of privately rented homes](#)

¹⁵¹ Written evidence, [Chartered Institute of Housing Cymru](#)

¹⁵² Written evidence, [Care and Repair Cymru](#)

¹⁵³ Written evidence, [National Energy Action](#)

Discretionary Assistance Fund to help pay for oil and liquid gas (for off-grid customers), alongside the Welsh Government's Winter Fuel Support Scheme and £150 cost-of-living payment.¹⁵⁴

146. In terms of the private rented sector the Minister highlighted the UK Government's recent consultation on changes to MEES and stated that Rent Smart Wales and the Nest scheme collaborate to encourage landlords to improve their domestic energy efficiency.¹⁵⁵

Our view

Official statistics confirm that rural counties in Wales have the highest levels of fuel poverty. Moreover rural areas unique challenges that make tackling energy efficiency and fuel poverty more complicated than in towns or cities. These include the size and profile of the properties, which are likely to be larger, older, and of solid wall construction. Properties in rural areas are also largely reliant on off-grid oil and gas, the price of which is deregulated and is generally more expensive than mains equivalents. Rural Wales also lacks some of the resources that are available in urban centres including access to a workforce with the right skills, and better-equipped supply chains. Despite all this, no attempt has been made to date, to create specialised or targeted support which meets the specific needs of rural Wales. We think that the time has come for the Welsh Government to consider a specific scheme which targets the needs of the fuel poor in rural Wales.

Recommendation 21. The Welsh Government should create an energy efficiency scheme to tackle rural fuel poverty. This scheme should include a plan for addressing some of the specific challenges faced in rural areas including:

- shortage of necessary skills in local workforces;
- supply chain issues;
- the higher proportion of off-grid, harder-to-treat, properties.

Private rented sector

The private rented sector is being left behind in the fight against fuel poverty. Very few privately renting tenants have benefitted from the existing Programme. It is unlikely that market forces will plug the gap – research highlighted in this inquiry has found there is little correlation

¹⁵⁴ Equality and Social Justice Committee, [Evidence paper from Welsh Government, item 2](#)

¹⁵⁵ Equality and Social Justice Committee, [Evidence paper from Welsh Government, item 2](#)

between the energy efficiency of a property and market rent rates. There is therefore little financial incentive for landlords to improve energy efficiency and we heard concerns that the costs may be prohibitive for some smaller landlords.

The answer must lie in a combination of measures involving incentives, standards, and engagement, or as one witness called it “the carrot, stick, and tambourine”.

We think that the Welsh Government must urgently explore the feasibility of financial incentives in the form of loans at very competitive rates, similar to the scheme available in Scotland.

Unless action is taken to increase standards, the private rented sector risks falling ever further behind. We think the Welsh Government should urge the UK Government to act on proposals to increase Minimum Energy Efficiency Standards (MEES) to EPC C- and, if they are unwilling to act, to explore implementing higher MEES standards in Wales only. Irrespective of the status of proposals the Welsh Government should ensure that local authorities have an adequate regime of inspection and enforcement of minimum standards and work with them to improve capacity if necessary.

Finally, more should be done to engage landlords with information and guidance. The next iteration of the Warm Homes Programme must improve the advice it is offering privately renting tenants and private landlords.

We note that Rent Smart Wales and the Nest scheme work collaboratively but that rates of fuel poverty in the private-rented sector have seen little improvement. We think there is scope for Rent Smart Wales not only to act as a conduit for engagement between the Warm Homes Programme and the sector but to play a more active role in the next iteration of the Programme.

Recommendation 22. The Welsh Government should improve energy efficiency through a combination of incentives, standards and engagement.

- To incentivise action the Welsh Government should promote the current zero-rated VAT on insulation measures and explore the feasibility of an energy efficiency loans scheme for landlords in the private-rented sector.
- To improve standards the Welsh Government should urge the UK Government to act on proposals to increase MEES to EPC C- by 2028 and, if unwilling to act, explore implementation of higher MEES standards in Wales only.

- To improve engagement with the sector the next iteration of the Warm Homes Programme should include improved advice and guidance which specifically targets private sector landlords and their tenants.

Recommendation 23. The Welsh Government should engage Rent Smart Wales in the development of the next Warm Homes Programme with a view to using that body as a conduit for engagement with the private-rented sector on energy efficiency and smart metering alongside identifying opportunities for partnership working. The Welsh Government should update us on progress with this work by November 2022.

Annex A: List of oral evidence sessions

The following witnesses provided oral evidence to the committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed on the Committee's website.

Date	Name and Organisation
7 February 2022	<p>Adrian Crompton Auditor General for Wales</p> <p>Matthew Mortlock Audit Wales</p> <p>Marks Jeffs Audit Wales</p>
14 February 2022	<p>Jonathan Cosson Warm Wales</p> <p>Dr Victoria Winckler Bevan Foundation</p> <p>Eliw Llyr Housing Strategy, Ynys Môn County Council</p> <p>Matthew Kennedy Chartered Institute of Housing Cymru</p>
7 March 2022	<p>Sophie Howe Future Generations Commissioner</p> <p>Dr Donal Brown New Economics Foundation</p> <p>Ben Saltmarsh National Energy Action</p> <p>Jack Wilkinson-Dicks Energy Saving Trust</p>
21 March 2022	<p>Jane Hutt Minister for Social Justice, Welsh Government</p> <p>Steve Chamberlain Domestic Energy Efficiency and Fuel Poverty Policy Lead, Welsh Government</p>

Date	Name and Organisation
	<p>Mark Alexander Head of Public Sector Decarbonisation, Innovation and Fuel Poverty, Welsh Government</p> <p>Mark Jeffs Audit Wales</p> <p>Chris Pugh Audit Wales</p> <p>Seth Newman Audit Wales</p>

Annex B: List of written evidence

All written evidence can be viewed on the Committee's website. The following people and organisations responded to the Committee's consultation:

Reference	Organisation
FP1	Age Cymru
FP2	Bevan Foundation
FP3	Care and Repair Cymru
FP4	Smart Energy
FP5	Housing Services, Ynys Môn County Council
FP6	Energy Saving Trust
FP7	Marie Curie Wales
FP8	Chartered Institute of Housing Cymru
FP9	Warm Wales
FP10	Public Health Wales
FP11	Localgiving
FP12	National Energy Action Cymru
FP13	Community Housing Cymru
FP14	Welsh Local Government Association