



House of Commons
Energy and Climate Change
Committee

**Fuel Poverty:
Government Response
to the Committee's
Fifth Report of Session
2009–10**

**Second Special Report of Session
2010–11**

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The Energy and Climate Change Committee

The Energy and Climate Change Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Energy and Climate Change and associated public bodies.

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The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/ecc.

Committee staff

The current staff of the Committee are James Rhys (Clerk), Richard Benwell (Second Clerk), Dr Michael H. O'Brien (Committee Specialist), Jenny Bird (Committee Specialist), Francene Graham (Senior Committee Assistant), Jonathan Olivier Wright (Committee Assistant), Emily Harrisson (Committee Support Assistant), Estelita Manalo (Office Support Assistant), and Nick Davies (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Energy and Climate Change Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 2569; the Committee's email address is ecc@parliament.uk

Second Special Report

On 30 March 2010 the Energy and Climate Change Committee published its fifth Report of Session 2009-10, *Fuel Poverty* [HC 424-I]. On 15 October 2010 the Committee received the Government's response to the Report. It is appended below.

Appendix: Government Response

The Coalition Government welcomes this report of the Energy and Climate Change Committee and its useful recommendations on the subject of fuel poverty.

We are still in the first 100 days of the new Government, and as the Committee will appreciate, we are still working through many of the policy issues that have an impact on fuel poverty. We have responded to all of the recommendations of the Committee as fully as we are able to at this stage.

A key part of the solution is undoubtedly to address the thermal efficiency of the housing stock. The Coalition Government wants every household to have the opportunity to benefit from better insulated homes which will not only be warmer but in turn will also help householders save money.

The previous Government made a good start, but if we are to achieve our ambitious targets to do all that is practicable to eradicate fuel poverty and reduce our greenhouse gas emissions, then we have to fundamentally alter the scale of delivery and that is what the Green Deal will be designed to do, having the potential to reach over 14 million homes across the country.

In taking this work forward, we are aware that the answers to the issue of fuel poverty are not always to be found in the corridors of Whitehall, and we are open to ideas from all sources as to how we can make progress with tackling the problem of fuel poverty.

A number of the Committee's recommendations are directed at policy areas that are the responsibility of the Department of Work and Pensions, they have been consulted in the preparation of our response, and the final reply agreed with them.

Fuel Poverty: targets and trends

1. Despite efforts to increase incomes and energy efficiency, the Government's 2010 target for the eradication of fuel poverty amongst vulnerable households in England is going to be missed. Its 2016 target, for the eradication of fuel poverty amongst all households in England, looks increasingly difficult to hit. However, we welcome the Government's support for the retention of this target. (Paragraph 14)

2. We are unconvinced by the Minister's arguments against the establishment of a road map for tackling fuel poverty. We accept that, as a result of the complex interaction of incomes, energy prices and energy efficiency, reducing fuel poverty is a difficult task;

but that simply strengthens the case for a road map. Greater clarity is needed on: the range of actions necessary for tackling fuel poverty; how they interact together; who owns each action; the milestones towards 2016; what is going to happen if those milestones are not reached; and funding. We accept that large price increases have made it very difficult to hit the 2010 target, but the absence of a road map towards that target has been a contributory factor. The Government should not repeat that mistake with the 2016 target and must produce a road map as soon as possible. (Paragraph 15)

The statutory target is for the eradication of fuel poverty, as far as reasonably practicable, in vulnerable households (the elderly, families with young children and the long term sick and disabled) in England by 2010. Fuel poverty in other households will also be tackled, with a target that by 22 November 2016, as far as is reasonably practicable, no person in England should have to live in fuel poverty. Fuel poverty is a devolved issue, Scotland and Northern Ireland have targets to eradicate fuel poverty by 2016 and Wales by 2018.

The Government is totally committed to helping those households that are in fuel poverty. We recognise the need to help more of the most vulnerable to keep their homes warm at an affordable cost. This Government is committed to radically improving and refocusing existing policy measures and bringing in completely new measures to deliver a real step change in ambition for energy efficiency in this country.

We have started doing that by extending the Carbon Emissions Reduction Target (CERT) to the end of 2012 and give it a greater focus on helping more of the most vulnerable low income households. CERT will raise an estimated £1 billion, but the assistance available needs to be more focused on the vulnerable.

We have therefore retained the current 40% Priority Group but have supplemented that by introducing a Super Priority Group (SPG) target requiring suppliers to deliver 15% of their target to the most vulnerable households.

Suppliers will be required to install at least one major insulation or heating measure to ensure that SPG households receive a significant benefit in their homes.

This is just the first step. We will be setting out our detailed plans for Green Deal in due course. These will recognise the importance that all householders, including the most vulnerable, have the opportunity to benefit from this step change in household energy efficiency.

The Green Deal is a key element of our policy to improve household energy efficiency. We want the Green Deal to be relevant to all households. To this end we will ensure that as policy around the Green Deal develops, the needs of those in fuel poverty continue to be recognised.

We will continue to look at ways in which we can make further progress towards the fuel poverty goals, including giving consideration to a road map, and remain committed to doing all that is reasonably practicable to eradicate fuel poverty in all households in England by 2016 (2018 in Wales).

The Government will, wherever possible, look to be inclusive on this issue, as it is clear that concern about fuel poverty goes beyond party boundaries. Although we may come from different sides of the political argument, and may have different priorities or apply different principles to problems that lead to different solutions, there is much more common ground on this issue than is often the case.

Targeting the fuel poor

3. Whilst we have not looked in detail at the benefits system we are concerned by the evidence we heard about the difficulties being caused by the new work capability assessment. We therefore urge the Department for Work and Pensions to work closely with organisations such as Macmillan Cancer Support and other relevant bodies to ensure these concerns are addressed. (Paragraph 21)

The Work Capability Assessment (WCA) was introduced in October 2008 to assess entitlement to Employment and Support Allowance for all new claims. It replaced the Personal Capability Assessment (PCA) used to assess entitlement to incapacity benefits. The new assessment deals more effectively with the types of conditions that are prevalent today, specifically it is better than the PCA at addressing the needs of people with mental health conditions.

The WCA focuses on the functional effects of an individual's condition rather than the condition itself, to provide a comprehensive assessment of an individual's ability to work, taking into account the modern workplace and developments in healthcare.

The assessment was developed in consultation with medical and other experts alongside specialist disability groups including Mind and others, and is based on the body of evidence which demonstrates that work can be beneficial for individuals with health conditions and disabilities and may even promote recovery.

In March 2009, a Department of Work and Pensions (DWP) led review of the WCA began. The purpose of the review was to establish whether the WCA is achieving its aim of correctly identifying an individual's capability for work, and to consider how it can better account for an individual's adaptation to their condition, enabling a more accurate assessment of their functional capability to work.

The review engaged closely with medical and other experts and specialist disability groups. After the review was complete, DWP undertook further work with disability groups to seek to address their concerns, resulting in an addendum. The review and addendum were published in March 2010.

The review found that, generally, the WCA accurately identifies individuals for the right support. The review made a number of recommendations for improving the WCA, which we will now be implementing.

Implementing the recommendations of the review will ensure that the WCA is fairer, more consistent and transparent. There will be greater provision for claimants who are awaiting or in between courses of chemotherapy, and for those with certain communication problems, as well as those with severe disability due to mental health conditions. The

recommendations will also take greater account of how someone has adapted to their health condition or disability, and will simplify the wording of the assessment.

Additionally, the Government also has a statutory commitment to arrange an independent review of the main elements of the WCA every year for the first five years of operation. This review will look at the WCA in operation and is distinct from the department-led review which focussed on the technical accuracy of the assessment and whether it could better account for how individuals adapt to their condition. The review will be conducted by Professor Malcolm Harrington, acting as lead reviewer. Professor Harrington is a highly respected occupational physician and will be supported by a scrutiny group, who will review progress at intervals and peer review the final report.

4. Using benefits as a proxy for fuel poverty is a rough-and-ready approach which means that some people in genuine fuel poverty do not receive assistance, and others who are not in fuel poverty do receive help. This is inefficient and inequitable. However, there are significant logistical and bureaucratic obstacles to the establishment of the kind of detailed domestic energy efficiency database which would allow more accurate targeting of resources. We welcome the work the Government is developing on the National Energy Efficiency Data Framework and look forward to seeing the results of the pilots underway. Taking into account those results, the Government will need to consider whether it would be cost-efficient and feasible to develop a more sophisticated database of domestic energy efficiency. The Government should also consider how it could utilise, with appropriate safeguards, the national programme of installing smart meters in all homes given the opportunity it provides for data collection. (Paragraph 25)

As noted by the Committee, the Government is developing a National Energy Efficiency Data (NEED) framework that will include a range of data, helping to inform policy decisions on fuel poverty and energy efficiency. Whilst smart meters can provide information on energy usage patterns, on its own, energy usage is not a good proxy for fuel poverty or particularly helpful in signalling the energy efficiency of households. Coupling energy data with other information, for example energy efficiency measures installed, or type of house, should provide much greater insights into possible policy options.

Following an initial scoping study, with the agreement of specific individual energy suppliers, DECC has delivered two pilot projects involving the analysis of energy consumption and other data on the building stock, covering residential and business energy sectors. In the residential sector, these included matching to annual meter-point consumption data, and information in the Energy Saving Trust's Homes Energy Efficiency Database. In the non-domestic sector, data from the Valuation Office Agency was used to provide information on type of activity, class of building, age of building and floor space. The reports of these projects (which only contained aggregated results) have been circulated to energy suppliers at working level, as well as to other data owners.

Based on these encouraging pilots, we are now embarking on the development of the national data framework, NEED.

Between now and next summer, an initial matched database will be created, containing energy consumption data already held securely by DECC for agreed statistical purposes and other geographical data and buildings data.

Initially, the database will be used solely for internal Government analysis, within the context of existing data agreements. Results of this work will be produced at Great Britain or regional level. During this phase consultation will commence with all major stakeholders to understand how to fully realise the potential of this exciting endeavour, including consideration of how to better enable data sharing within Government for purposes of meeting national energy efficiency targets.

Our current intention is to develop controlled arrangements for giving certain access to other users to data outputs, subject to confidentiality and data protection restrictions. This phase will also need to agree where and on what basis the different datasets should be held and made available to different parties, in doing so seeking to maximise the overall benefits to all potential users, whilst maintaining the confidentiality of all detailed data.

5. Given the imperative of using scarce resources effectively, we are dismayed that it has taken five years to get data sharing happening, and then only as a pilot with regard to one cohort amongst the fuel poor. We urge the Government to assess the results of the pilot speedily and, contingent on the outcome, hope soon to see measures brought forward to extend the scope of data sharing. (Paragraph 30)

The Energy Rebate Scheme, a one off exercise testing the use of data-sharing for targeting money off energy bills, represents an important new step in the use of Government information. It has required an intense work programme between Government and the big six energy suppliers to allow us to develop the detail of the scheme.

We have taken a prudent approach, undertaking the exercise on a modest scale in view of the significant risks we know are involved in data sharing. A large part of this is the sharing of Government data simultaneously with the six largest energy supply organisations who each have different IT systems.

We estimate that up to 250,000 pensioner households will receive a one off £80 rebate on their electricity bills. The cost of this rebate and most of the delivery costs have been met by the energy suppliers under their 2008 Voluntary Agreement with Government. Letters informing people that they were or could be eligible for the Scheme have been sent out from Government from early June and energy suppliers began crediting rebates to customers' accounts in July 2010.

The results of the Scheme so far are very promising. Once the Scheme is completed, the Government will look at what lessons could be learned from it and what role data-sharing could have in future fuel poverty policies.

6. As a means of tackling fuel poverty, the case for Winter Fuel Payments is weak. Its payment is unfocused and not targeted on people in or near fuel poverty. However, as a universal means of supplementing pensioner incomes, which is easily understood and easy to pay, the political case for the retention of Winter Fuel Payments is strong. However, it would be more intellectually honest to rename the benefit; concede that it a

general income supplement; and stop accounting for it as a fuel poverty measure. (Paragraph 34)

We accept that the Winter Fuel Payment is not solely a fuel poverty measure – it also provides reassurance to older people that they can afford to keep warm in the winter months when heating bills are higher. Each winter the Winter Fuel Payment helps over 12.3 million older people in around 9 million households with fuel bills, at a cost of around £2.7 billion. We therefore think that “Winter Fuel Payment” is an appropriate name for this benefit and there are no plans to change it.

Energy Efficiency

7. We welcome the Government's household energy management strategy, which contains a range of measures designed to increase levels of domestic energy efficiency. In particular, we welcome the provisions requiring local authorities and energy companies to deliver programmes which are sensitive to the needs and characteristics of local areas. We hope that this work will, with the outcome of the CESP trials, lead quickly to the provision of energy efficiency measures being delivered on a comprehensive street-by-street basis, in a way which obviates the need for households proactively to come forward. This would be an ambitious long-term objective, which we would like to see included as an important part of the fuel poverty road map we are advocating. (Paragraph 45)

The Previous Administration published its Household Energy Management (HEM) Strategy on 2 March 2010, setting out two main targets for household energy efficiency; to:

- insulate all remaining lofts and cavities by 2015, where practical;
- offer up to 7 million more significant measures such as solid wall insulation and renewable heat to households by 2020.

The Green Deal is a completely different framework bringing in capital from the private sector. It is commensurate with the scale of the challenge we face. The old approach was never going to deliver the scale of change we need.

The Green Deal will provide household and business energy efficiency improvements at no up-front cost, with consumers repaying through the savings they make on their energy bills.

We are committed to putting in place the necessary steps to ensure that the benefits of the Green Deal can reach every household, even the poorest and those in the hardest to treat homes.

Green Deal consumers will be entitled to:

- An independent assessment of the energy performance of their property, identifying the best opportunities for efficiency improvements.
- Improvements carried out by kite-marked installers. We think quality assurance will have a big part to play in driving uptake of the Green Deal.

Householders will be able to choose the right solutions for them based on clear advice setting out their options and potential solutions.

We have committed in the Queen's speech to legislate in a first session energy bill for finance tied to the energy meter, which should allow for the full Green Deal to be available in 2012.

By extending a more ambitious and targeted Carbon Emissions Reduction Target (CERT) to December 2012 we are starting a massive and urgent increase in home energy insulation for the nation, paving the way for the Green Deal.

A comprehensive evaluation of Community Energy Saving Programme (CESP) began at the end of March 2010. The energy saving measures, householder experiences, and the processes that define CESP will all be evaluated. The ongoing results from the evaluation (with a final report due in March 2011) are expected to provide valuable lessons about whole house and community energy saving approaches and will help inform future energy efficiency policy development.

8. The Warm Front Scheme has done some very good work in improving the energy efficiency of vulnerable households and thereby reducing fuel bills. We accept that it is difficult to prioritise certain categories of eligible Warm Front customers above others. However, the Warm Front Scheme is experiencing extremely high demand and diminishing budgets. Furthermore, we know from the NAO's work that the Scheme does not always target effectively those who are actually fuel poor. In that context, we think the Government should look again at this issue and seek to focus the work of Warm Front on those who need its support most. We accept also that the Warm Front is not an emergency scheme; however, we think there is scope, in the longer term, for the Government to move resources away from the Warm Front Scheme towards a CESP-style, street-by-street approach as advocated earlier, and for the Warm Front Scheme to move towards providing an emergency service for the most vulnerable people in fuel poverty with urgent heating needs. The Government should start considering the longer term cost benefits of such a transition. (Paragraph 55)

9. We recommend that the Government reviews the operation of the Warm Front Scheme to ensure that any barriers which may be preventing it being accessed by people with cancer or other debilitating conditions - such as time-limited grants - are removed or modified. (Paragraph 57)

As noted by the Committee, Warm Front has helped to improve the energy efficiency of over 2.1 million vulnerable households through the provision of heating and insulation measures. The Scheme will continue to install measures throughout financial year 2010-11.

Warm Front funding is linked to the three year Government spending cycle and no decisions have been made over future Warm Front budget beyond March 2011. Funding for the Scheme is to just over £1.1 billion for the current spending round until March 2011.

Further funding for Warm Front, and any potential changes to the Scheme will be considered as part of the Spending Review.

Social price support

10. Funding the new feed-in tariff through fuel bills will disadvantage most those people who are on low incomes and who are experiencing fuel poverty. The Government will need to keep the impact of this policy under review. (Paragraph 64)

The fuel poor who install small scale generation will benefit from lower fuel bills as well as a revenue stream from their electricity generation and export. We are aware of a number of installers currently looking at installing solar photo voltaics on social housing whereby the tenants would benefit from the free electricity without having to pay any costs towards the upfront installation costs. Housing associations and local authorities are also looking at ways in which they and their tenants can benefit from the Feed in Tariffs (FITs) scheme.

The poor can also benefit from FITs revenues if they are involved in community schemes. For those who do not benefit directly from FITs, we will continue to work to ensure that we mitigate the impacts on fuel poverty through other policies intended for that purpose.

11. We welcome the introduction of mandatory social price support as an imperfect but necessary means of helping those most in need. We note that the Government intends to consult on eligibility criteria and benefit levels, but that it is minded that a significant proportion of the new resources should be focused on older pensioners. A case has been put to us for extending social price support to other groups. While we are sympathetic to that case, there is a risk that extending support to many more people (for example, the four million people who are eligible for Cold Weather Payments) would mean that, unless additional resources are found for the scheme, the rebates paid to all recipients would not be large enough to make a significant impact on fuel poverty. We are therefore not convinced of the case for extending eligibility, given the resources likely to be available. We note, however, that the Government is minded to ensure that some support is provided to those who currently benefit from the voluntary agreement. We welcome this, and look forward to clarification from the Government about the nature of that support. (Paragraph 65)

12. A further case was put to us that some categories of people with cancer - equating to around 400,000 people - should be eligible for social price support. We note the strength of the argument put to us and recommend that the Government look to see how people with a serious medical condition could benefit from social price support as part of its consultation later this year. (Paragraph 66)

The Energy Act 2010 contains powers that enable the Secretary of State to create schemes in secondary legislation to mandate energy companies to provide support for the fuel poor. We will take decision on whether to introduce mandatory support following the Spending Review.

Households off the gas grid

13. We are pleased to note the Minister's enthusiasm for the potential for novel technologies to help alleviate fuel poverty for people off the gas grid, but are disappointed about how long it has taken to assess these technologies. It is clear that work on this is at a very early stage and we urge the Department to report back on the trials currently underway at the earliest opportunity. Households off the gas grid pay more for their fuel and are more likely to be in fuel poverty and the Government should ensure that it takes effective steps to help them. (Paragraph 72)

The Warm Front Scheme is already helping vulnerable households that are off the main gas grid with eligible households being entitled to a grant of up to £6,000 where an oil heating system or low carbon heating technology is recommended. Warm Front is currently undertaking trials to assess the suitability of Air Source Heat Pumps and the provision of solid wall insulation for park homes.

The extension of a restructured CERT to 2012 was announced on 30 June 2010. The provision of an insulation minimum will lead to increasing rates of insulation over the CERT extension, including in areas which have to date been less cost-effective for suppliers to operate. Further, suppliers will now be awarded a carbon score for solid wall insulation based on the main heating fuel of the property it is installed in (rather than the standard gas/electricity score used for other measures) helping to encourage promotion in off gas grid properties.

The Government is conscious of the difficulties faced by off grid energy consumers and recognise that more needs to be done in this area. This is why we have included a commitment in the Coalition Agreement to seek to extend protection and support to off grid energy consumers.

14. We note the difficulties inherent in seeking to regulate the market for fuels bought by people off the gas grid. However, this group is disproportionately likely to be fuel poor and we believe the Government must review urgently the case for regulating this market. As a more modest step, we urge DECC to discuss with HM Treasury the case for flexibility in the timing of winter fuel payments, so that people off the gas grid have the opportunity to maximise the fuel they are able to buy. (Paragraph 75)

Whilst we have sympathy with the difficulties faced by off grid energy consumers, the Government supports the retention of competitive markets in the supply of heating oil and liquid petroleum gas (LPG), as we believe it is in the best interests of both the industry and these consumers. Responsibility for the robust enforcement of competition law in the UK lies with the independent competition authorities, the Office of Fair Trading (OFT) and the Competition Commission (CC). Both general consumer protection legislation and competition law applies to this sector.

The Government does however have sympathy with the difficulties faced by these consumers and recognises that that more needs to be done to support them. That is why we have included a commitment in the Coalition Agreement to seek to extend protection and support. to off-grid energy consumers.

We will therefore need to identify an efficient package of measures and explore better ways of targeting support at vulnerable households off the gas grid, ensuring that any programme that we implement complements the measures we take on fuel poverty in general. For example, options to be explored include the further roll out of household energy efficiency measures and/or proposals to promote renewable heating. Affordability will obviously be a key concern when considering the options for consumer support to this group.

Winter Fuel Payments are paid to individuals aged over the female State Pension Age in the qualifying week (the week beginning on the third Monday in September). The process to establish entitlement of over 12.3 million older people takes six weeks and the first payments, to the poorest pensioners, are sent in November. Using a single qualifying week enables large numbers of payments to be made before the New Year (in anticipation of colder weather in the winter period) at low administrative cost. Individuals, including those who are off the gas grid, choose when to purchase their fuel and it would be inappropriate for the Government to pre-empt such decisions.