The Green Deal, Energy Efficiency and Fuel Poverty

Background
The Coalition Government’s new Energy Security and Green Economy Bill provides an opportunity for a major overhaul of domestic energy efficiency standards. The Bill introduces a number of radical proposals to lower household energy costs while reducing carbon emissions and funding a major new programme to resolve the growing problem of fuel poverty in Britain. The Energy Security and Green Economy Bill could be the mechanism that is needed to bring the Government’s fuel poverty targets back within range.

The scale of fuel poverty
Publication of fuel poverty data across the United Kingdom is not well synchronise. The latest UK figures are based on Scottish data from 2009, Northern Ireland data from 2009, Welsh data from 2008 and Government estimates of fuel poverty in England in 2010. As such the totals below represent an underestimate of the current situation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of fuel-poor households</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>England</td>
</tr>
<tr>
<td>1996</td>
<td>5,100,000</td>
</tr>
<tr>
<td>1998</td>
<td>3,400,000</td>
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<tr>
<td>2002</td>
<td>1,400,000</td>
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<tr>
<td>2004</td>
<td>1,200,000</td>
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<tr>
<td>2006</td>
<td>2,400,000</td>
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<tr>
<td>2008</td>
<td>3,300,000</td>
</tr>
<tr>
<td>2010</td>
<td>4,000,000</td>
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</tbody>
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1 The Government defines fuel poverty as the need to spend more than 10% of household income on energy needs for the home, including sufficient warmth to maintain a healthy living environment.
The UK Fuel Poverty Strategy
The UK Fuel Poverty Strategy was published in 2001 as a requirement of the Warm Homes and Energy Conservation Act 2000. That Strategy set out how Government proposed to meet two distinct fuel poverty targets; fuel poverty was to be eradicated, as far as reasonably practicable, for vulnerable households by 2010 and for all households in England by 2016.

Energy prices
The table above illustrates the significant progress made in the early years of the Strategy after which, from 2003 onwards, a series of unprecedented increases in domestic gas and electricity bills halted and reversed progress. Between 2003 and 2010 domestic energy bills have risen by around 120% - the increased levels of fuel poverty are entirely attributable to unaffordable energy costs.

The Government response
The Government has introduced a number of policies to address the main factors in fuel poverty:

- Inadequate heating and insulation standards
- Low household income
- High energy prices

Heating and insulation standards
The Government’s Warm Front Scheme and the Priority Group requirements of the Carbon Emissions Reduction Target (CERT) deliver energy efficiency improvements to households in receipt of means-tested or disability-related benefits. Both schemes will be replaced in the run-up to the introduction of the Energy Company Obligation (ECO) element of the Green Deal. It is intended that the ECO should be the new source of funding for fuel-poor and other economically disadvantaged households from the end of 2012.

Low household income
The Government has two separate schemes to help vulnerable households with fuel bills. The non-means-tested Winter Fuel Payment made to all households aged 60 or over and the Cold Weather Payment, made during periods of particularly severe cold and restricted to households on a low income and who are vulnerable as a result of age (pensioners and children under 5) or disability.
**High energy prices**
The Government will introduce a Warm Home Discount scheme next year. In the first phase, the scheme will offer a discount of £130 on electricity bills for households aged over 60 and in receipt of the Guarantee element of Pension Credit.

**Key Principles of the Green Deal**
The Green Deal is intended to bring about a ‘step change’ in domestic energy efficiency in Great Britain. The key elements of the Green Deal are thought to be:

- Householders will have access to finance, up to £6,500, without any upfront payment being required. The finance will be provided by a range of private sector funders and will be paid through a charge on household bill over a period of time up to 25 years.
- The charge will remain with any subsequent occupant of the dwelling who will be responsible for ongoing payments.
- The Green Deal is underpinned by a ‘golden rule’ specifying that financial savings resulting from energy efficiency improvements should exceed the amount of any repayments made to service the finance arrangements.
- Energy efficiency measures funded under the Green Deal finance mechanism will be limited to thermal insulation of walls and roofs.
- It seems likely that energy efficiency measures that cannot comply with the ‘golden rule’ such as solid wall insulation will be subsidised through the Energy Company Obligation.

**The Green Deal and fuel poverty**
The Government has recognised that the Pay-as-You-Save element of the Green Deal is not appropriate for fuel-poor and financially disadvantaged households. This is because:

- They are living at what is effectively subsistence level and cannot contemplate making a significant financial investment no matter how favourable the finance arrangements may be.
- Vulnerable fuel-poor households will be debt-averse because their existing financial circumstances are so precarious that many struggle to cope with everyday budgeting for essential goods and services.
Latest data from Ofgem suggest that 2.5 million households in Great Britain are in debt to their energy supplier alone. Will the Green Investment Bank, or whatever mechanism is finally developed to fund the Green Deal, view these households as a reasonable credit risk?

Under-heating the home is a fundamental manifestation of fuel poverty. The benefits of efficient heating and effective insulation should be taken in the form of a warmer and healthier living environment rather than in monetary savings. How are such households to repay capital costs through savings on the energy bill?

- They have a poor credit rating and so represent a risk to the lender
- They have existing debt problems and/or are debt averse
- They are unable to benefit financially from energy efficiency improvements since much of the benefit will be taken in increased warmth rather than in lower costs
- They are private sector tenants and subject to decisions made by the landlord

The Energy Company Obligation and fuel poverty

The primary mechanism to assist disadvantaged households improve heating and insulation standards in their homes will be the Energy Company Obligation (ECO). This will represent the only source of assistance for these households following the anticipated conclusion of Warm Front at the end of 2012-2013. The Energy Company Obligation may represent an extremely valuable fuel poverty programme provided it meets a number of criteria:

- It is sufficiently well funded and this funding is not seriously undercut by diverting a disproportionate share of resources to assisting able-to-pay households living in hard to treat properties
- The programme allows for whole-house energy efficiency improvements and funds 100% of the work
- The Energy Company Obligation funding is used in a structured and strategic manner that encourages community-wide improvements in the most efficient and cost-effective form
- Local authorities, as the trusted local intermediary, are given the lead role in coordinating energy efficiency programmes in partnership with a range of agencies including energy suppliers, voluntary sector organisations and
other relevant commercial enterprises such as heating and insulation installers

- Practical work under the Energy Company Obligation is supplemented by guidance and advice on the most appropriate energy tariffs, energy advice aimed at behaviour change and support and advice in relation to fuel debt and consumer protection.

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