

Fuel Poverty

The problem and its measurement

Interim Report of the
Fuel Poverty Review



Causes of fuel poverty

Causes

- Fuel poverty is caused by a lack of control of energy bills or inability to convert cash into heat
- Dwelling size and SAP rating have greatest impact on the size of the energy bill
- Those on low incomes are least likely to be on the best tariffs, e.g. not on direct debit
- Government policies have different effects on different households
The net effect on different income groups depends on the how the interventions financed by those policies are distributed



Impacts of fuel poverty

Impacts

- There is strong evidence relating to specific health impacts e.g. cardiovascular and respiratory problems below certain temperature thresholds, especially for the elderly
- A conservative estimate of the number of excess winter deaths caused by fuel poverty is 1 in 10 or 2,700 – more than the number of road deaths last year
- There is an association between cold homes and other social problems such as isolation in adults and poor educational attainment in adolescents
- Those who are fuel poor but not living in cold homes do so at the expense of other essential and non essential goods e.g. heat or eat



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Perspectives on fuel poverty

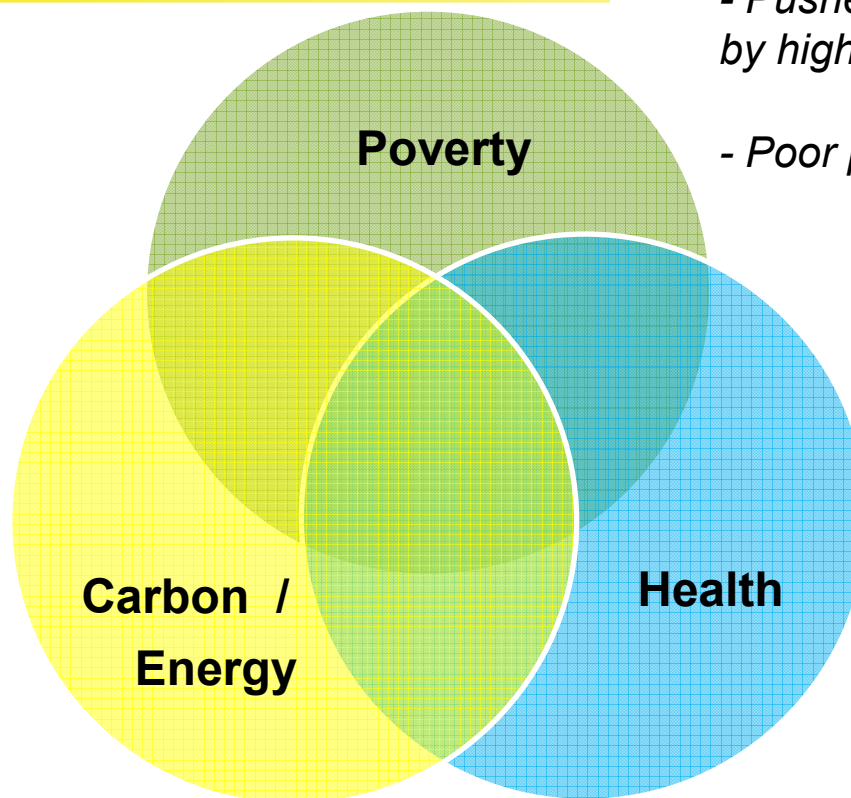
- Unequal ability to convert cash to warmth

- Pushed into poverty by high costs

- Poor pay more

- Capital investments out of reach for some

- Potential obstacle to carbon mitigation policy delivery, especially where costs go on bills



- High rate of EWDs and morbidity issues in general

- Mental health and social well-being

- Social isolation



Warm Homes and Energy Conservation Act 2000

*"A person is to be regarded as living "in fuel poverty" if he is a member of a household living on a **lower income** in a home which cannot be kept warm at **reasonable cost**."*

Is this what we currently measure?



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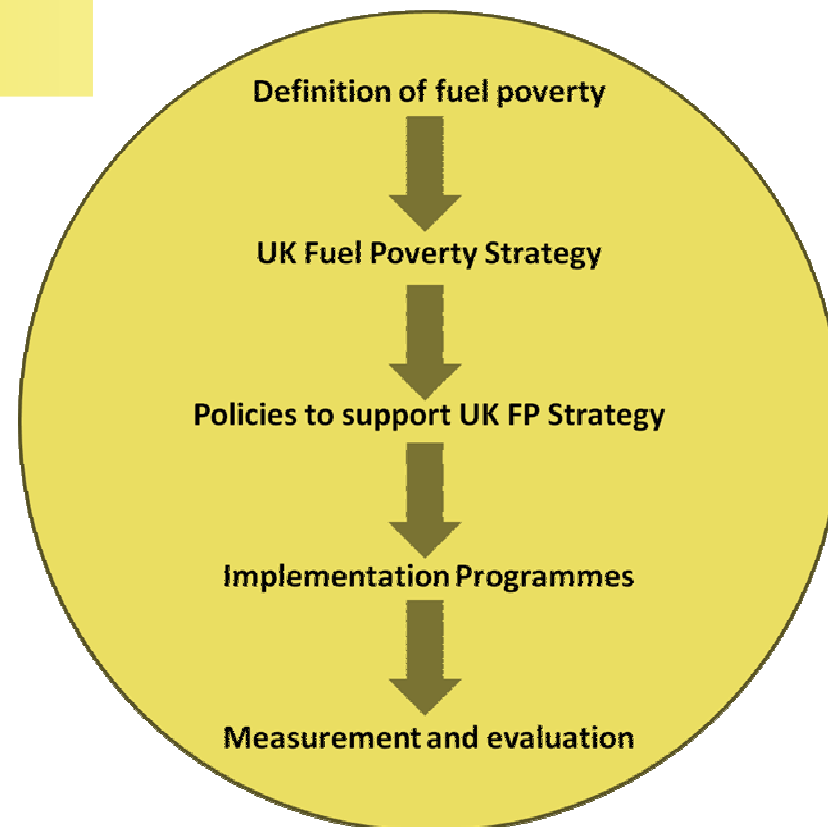
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Why measurement matters

What a good indicator can do

- **Monitor trends** and underlying changes
- **Indicate extent, depth** (and possibly persistence)
- **Identify** the kinds of people affected
- **Support policy design** and assessment



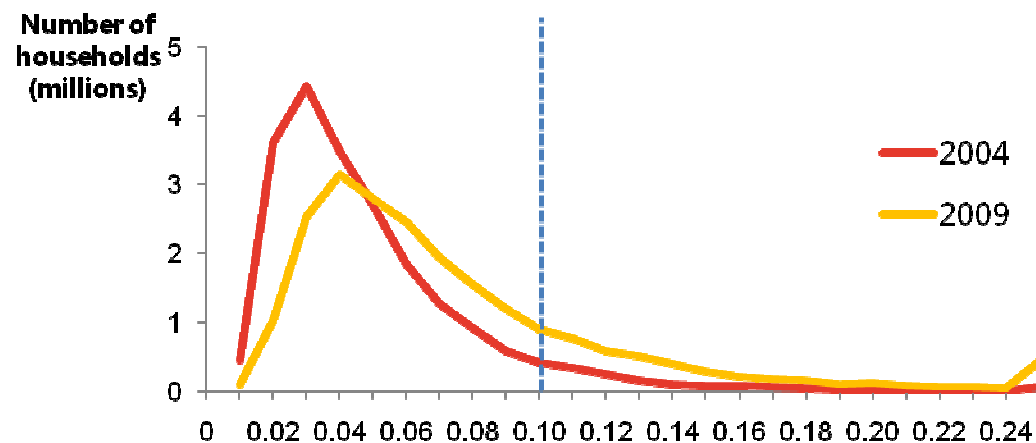
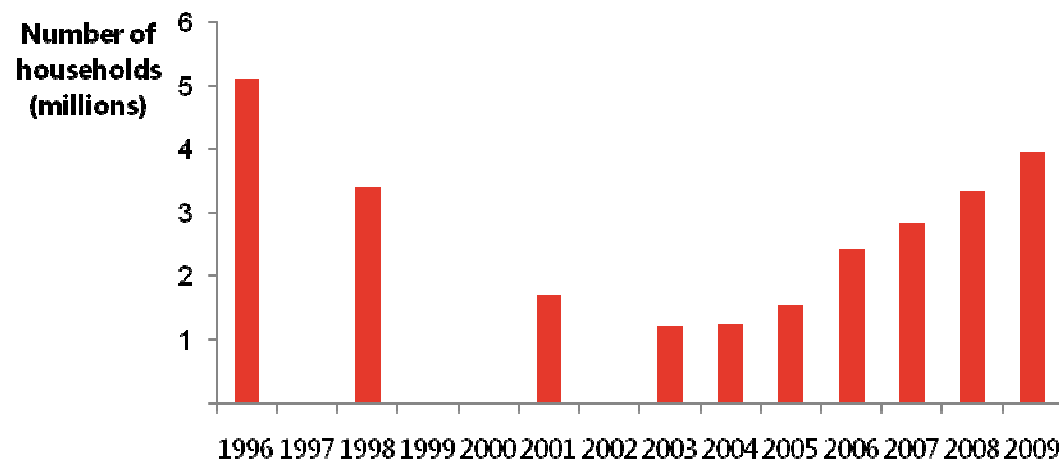
Steps 1 to 4 courtesy of Prof C Liddell (NI Review 2011)

The current indicator

Current definition

A fuel poor household is one that would need to spend more than 10% of its income on adequate warmth.

$$\text{Fuel poverty ratio} = \frac{\text{Required fuel costs (i.e. required usage} \times \text{price)}}{\text{Income}}$$



Strengths

Needs-based

- Modelled assessment
- Doesn't count being cold as success

Sensitive to three key drivers

- Income
- Energy efficiency
- Prices

Weaknesses

Fixed threshold

- No clear rationale
- No longer current
- Shows tail of distribution

Ratio

- Numerator / denominator problem

Over-sensitive

- Is unduly dominated by prices
- Technical issues also have big impact (e.g. reporting of low incomes and temperature standards)

Unreliable

- Misreports trends
- Distorts policy choices

Options for measurement

Minor adjustments

- A** After housing costs
 - *Better reflects affordability*

- B** Twice median spending
 - *Relative to contemporary spending, not fixed*

- C** Fuel poverty gap
 - *Additionally measures depth of problem*

Fundamental changes

- D** After fuel costs poverty
 - *Reflects those pushed into poverty by high costs*

- E** Low income – low SAP
 - *Captures some of the overlap within WHECA*

- F** Subjective
 - *Useful cross-check*



Low income and high costs indicator

Low income high costs, including a fuel poverty gap

Our analysis suggests we want something that is focused on needs, that measures income after housing costs, that reflects the relative nature of costs, that focuses on the overlap set out in WHECA and that measures the depth of the problem.

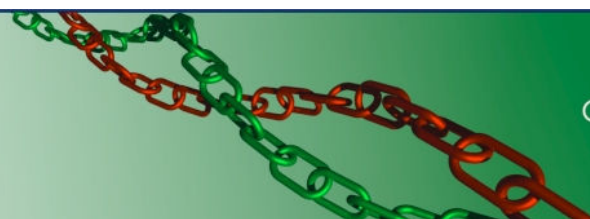
The basic definition

Under this indicator, a fuel poor household is one that :

- **faces higher than typical costs; and**
- **were it to spend that amount, would fall below the poverty line**



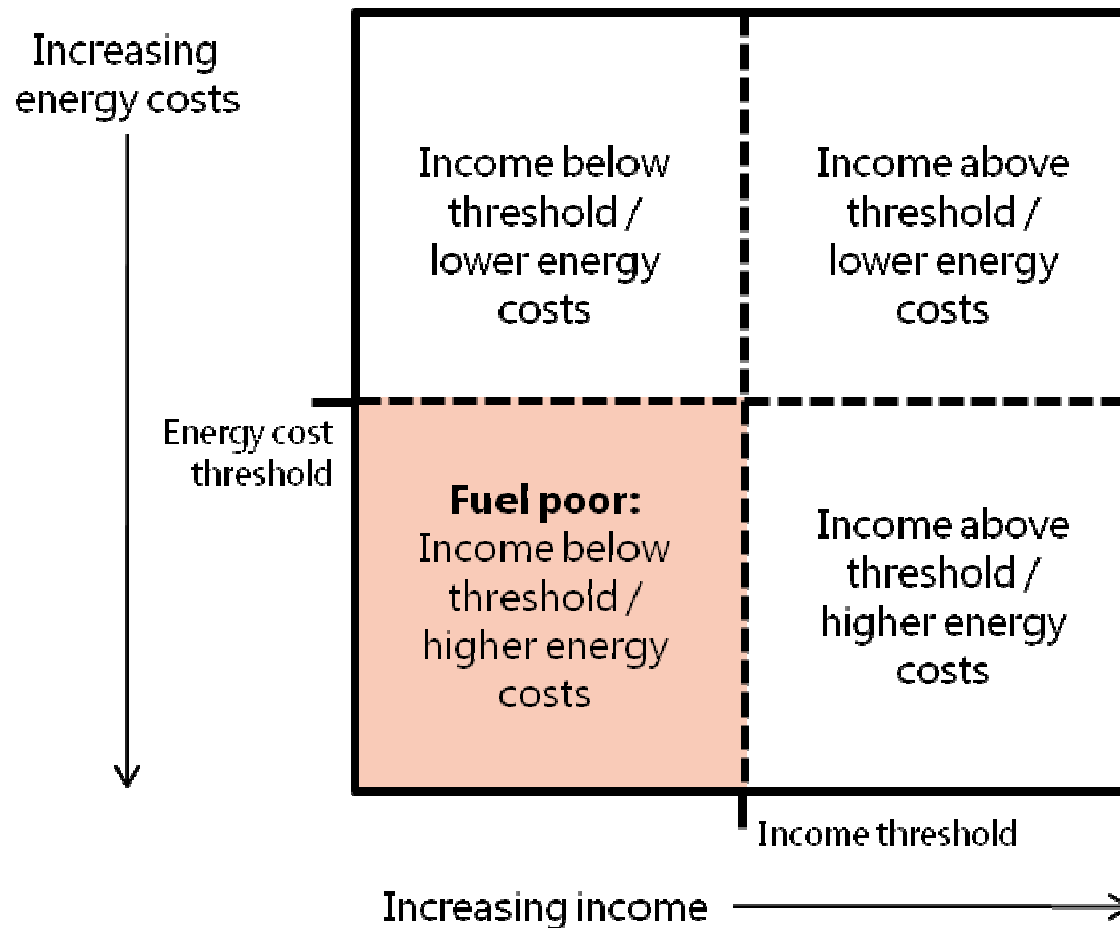
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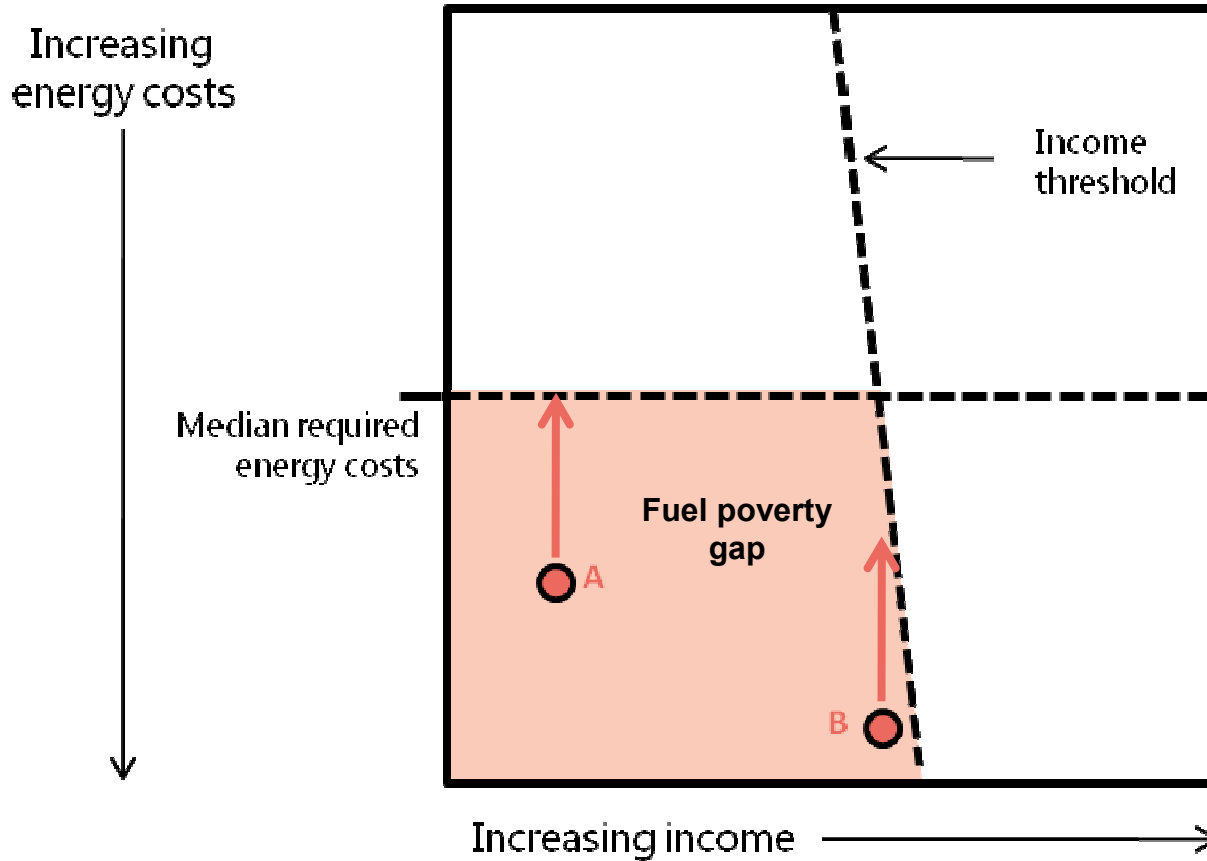


The broad concept



See Figure 7.1 in report

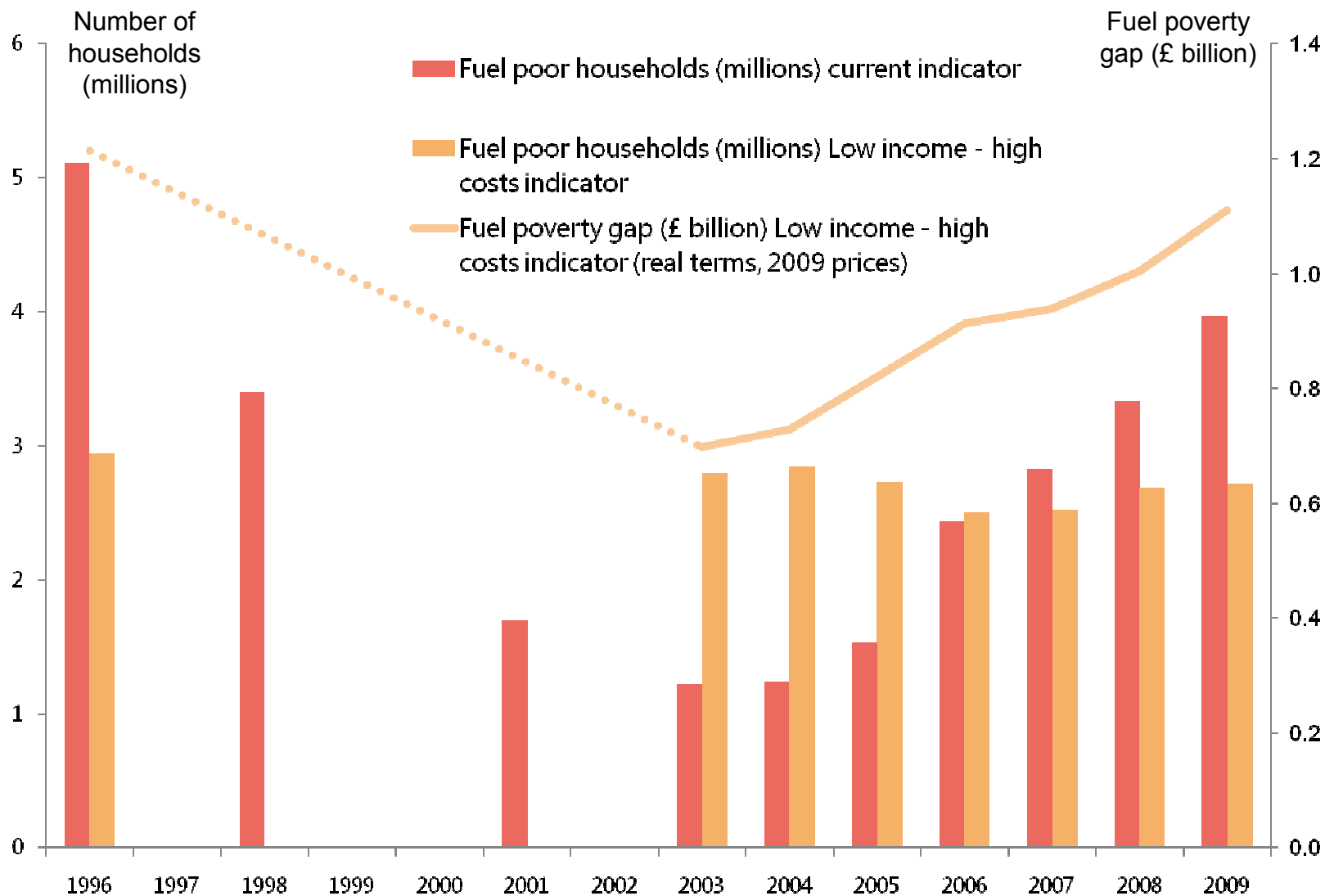
The more detailed concept



See Figures 7.2 and 7.3 in report

We have consulted on how to set the thresholds.

Number of fuel poor households and aggregate gap



Conclusion and consultation

Conclusion

- **Fuel poverty is a serious problem** with serious impacts
- **Measuring it is important** to understand the scale of the problem and to help shape policies to address it
- **WHECA was right:** the core problem is the overlap between income and costs
- **A Low income – high costs indicator reflects this**, with the addition of a fuel poverty gap which in turn reflects the Energy Act 2010



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Consultation

- **Broad agreement with conclusion that fuel poverty is a distinct issue** and with our assessment of the causes and impacts of fuel poverty
- **Recognition of the case for and against the current indicator of fuel poverty.**
- A broad welcome for **defining fuel poverty as the overlap** of low incomes and unreasonable costs.
- **Strong concerns** about the way in which we have defined unreasonable costs, particularly the way we adjust modelled bills, our use of a median threshold and the implications of our indicator for target setting.
- **We are considering the responses** and seeing how we could adjust our indicator while keeping the broad framework.



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