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Scale of Fuel Poverty

As energy prices continue to rise, so inevitably does the scale of fuel poverty. The average dual fuel energy bill is now at a record high of £1,345 per annum\(^1\) and will cause severe additional hardship for more than five million households\(^2\) across England who are currently in fuel poverty. For every 1% added to consumer’s bills FPAG estimates another 45 to 60,000 households move into fuel poverty.

Government commitment

It is of serious concern that the Government has taken the decision to end the Government-funded Warm Front scheme in 2013. In FPAG’s view, this decision makes it questionable that the government is totally committed to tackling fuel poverty and its obligation to do all that is "reasonably practicable” to eradicate fuel poverty by 2016 as required by the Warm Homes and Energy Conservation Act 2000. For the first time since 1978 there will be no taxpayer-funded scheme to install energy efficiency measures in dwellings occupied by vulnerable and low-income households. Meanwhile, higher energy prices increase VAT receipts to the Treasury by circa £210 million per annum. Similarly, the carbon price floor, an intervention by government to help facilitate the construction of low carbon energy sources, could potentially deliver the Treasury an additional £1.45 billion per annum when fully introduced. Therefore, there are choices for Government in this context as opposed to only the deficit reduction.

Professor John Hills, in his Interim Report of the Fuel Poverty Review, in October stated: “It is essential that we improve the energy efficiency of the whole housing stock. But those on low incomes and in the worst housing can neither afford the immediate investment needed nor afford later repayments without additional help.”

FPAG unequivocally agrees with this observation from Professor Hills and also welcomes his finding that fuel poverty is a “distinct – and serious – problem” that deserves and requires attention.

The Green Deal

It is widely recognised that the Green Deal – to make homes energy efficient through a long term ‘credit arrangement’ - will be unsuitable for fuel-poor households. Alongside the Green Deal, the new Energy Company Obligation (ECO) will provide additional assistance to those who need the most help. However, most FPAG members believe that the Energy Company Obligation (ECO) must be dedicated to the alleviation of fuel poverty and not used to subsidise expensive measures on behalf of ‘Able-to-Pay’ households. In addition, ECO funded through costs added to customer’s bills, is not an equitable replacement for Warm Front.

\(^1\) Ofgem: Press Notice 14\(^{th}\) October 2011
\(^2\) NEA estimate 2011
Market intervention

The Government has shown a willingness to intervene on the supply side to develop particular energy industry policy objectives through the carbon floor price, a new pricing arrangement and capacity payment proposals. This is to facilitate the construction of low carbon generation such as new nuclear and aid security of supply. The Government and Ofgem should now show a similar determination on the demand side and investigate whether low income and vulnerable consumers, unable to have access to the best energy deal, would be better served by a different arrangement. Furthermore, DECC and Ofgem should also explore the full social and financial implications of the current regressive mechanism used to recover through consumer’s bills the costs of social programmes and environmental costs to decarbonise energy.

Help is urgently needed with high bills

Energy efficiency measures – better levels of insulation and lower-cost efficient heating systems - can deliver a lasting solution to fuel poverty. But, in the meantime, many low-income households need urgent help with rising energy costs.

The last few years have seen energy prices increase substantially. Although there was a slight reduction in both electricity and gas prices in 2010 compared with 2009, over the four years from 2007 to 2010 the average electricity bill rose by 14% and the average gas bill by 27%.

These fuel price rises have far outstripped increases in household income and have hit the poorest hardest. In 2010 most benefits and tax credits were increased in line with the retail price index (RPI) which varied from 3% to 5%. Full time employees earn on average just over 2% more than they did in 2009, and the national minimum wage increased by around the same amount.

Those with the lowest incomes are the least able to absorb these price rises, as fuel makes up a much more significant proportion of their incomes than is the case for those on higher incomes. In 2009, the lowest income decile spent almost 8% of their income on fuel; the highest income decile spent only 3.4%. If fuel price rises are not accompanied by compensatory increases in income – or decreases in other expenditure – they inevitably push more people into fuel poverty and they push the already fuel poor deeper into fuel poverty.

FPAG welcomes the assistance with energy bills being provided to low-income pensioners through the Warm Home Discount scheme. However, it remains concerned that assistance for other vulnerable customers – including those on low incomes with young families or with disabilities, is much more limited. For these households, each supplier sets their own eligibility criteria (with the approval of regulator Ofgem) that determines which households should benefit. This creates uncertainty and inequity for consumers, and additional costs for suppliers to identify these consumers and deliver the schemes. Extending the data matching powers taken in the Pensions Act 2008 to a wider group of benefit recipients would represent a much more efficient use of resources and support greater numbers of customers. FPAG recognises that this would require primary legislation and additional funding from suppliers.

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6 Figure calculated using data on historical rates from http://www.lowpay.gov.uk/
Up to £12.7 billion in means-tested benefits and up to £7.5 billion in tax credits went unclaimed in 2008-9. This means that as much as a quarter of all available benefit expenditure was not claimed.\(^8\) The work of utility trusts, voluntary and community organisations and local authorities shows how effective Benefit Entitlement Checks (BECs) can be in increasing the income of those at risk of fuel poverty. Such checks can also passport individuals to schemes for which eligibility is reliant on benefit receipt. For example, the Warm Front Scheme completed over 350,000 BECs between 1997 and 2010, when this element of the scheme ended. It delivered average increases in weekly income of £35, and in 2009-10 almost a third of those who were initially identified as ineligible for Warm Front became eligible following the BEC.\(^9\)

**Environmental measures and their cost recovery**

The typical dual fuel bill now recovers some £80 per annum of social and environmental programme costs. This amount will increase with the advent of the carbon floor price in 2013 plus the new ‘agreed price’ proposed approach for low carbon generators.

It is inequitable that such costs are recovered through bills and even more so when some environmental costs are apportioned on a per household basis; a more equitable approach would be based on energy used. Some 85% of low-income households would benefit from such a consumption based approach.

The costs of some energy policy measures are recovered from taxpayers – for example the Carbon Capture and Storage demonstration projects and the new Renewable Heat Incentive. However, there has been a growing trend to ‘outsource this activity’ to energy companies and make them responsible for delivering a range of Government climate change and social policy objectives. The funding for this is collected through consumers’ energy bills. Initiatives, the costs of which are passed through to electricity consumers, currently include: Renewables Obligation (RO); Feed-in Tariff (FiT); European Union Emissions Trading Scheme (ETS); Warm Home Discount (WHD); Community Energy Saving Programme (CESP); and Carbon Emissions Reduction Target (CERT). The costs of CESP and CERT are also passed through to gas consumers.

FPAG has two main concerns about these costs being imposed on gas and electricity bills. Firstly, it is much more regressive to recover such costs from energy consumers than from taxpayers because the poor spend disproportionately more of their income on energy bills. Secondly, the way in which the costs are attributed and thus how they are passed through to consumers.

But even when costs are collected through bills rather than taxation, the basis on which costs are collected by energy suppliers varies according to the way in which Government requires them to meet the policy objectives. Costs of the RO, FiT and ETS fall upon suppliers according to the amount of energy consumed by their customers. Assuming costs are recovered where they fall, companies would be likely to pass the costs of meeting these policies through to consumers on the basis of units of energy consumed.

By contrast, the costs of the Warm Home Discount scheme, CERT and CESP are attributed to suppliers according to their market share and accordingly companies would be likely to pass on the

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\(^9\) Connecting with communities. The Warm Front Scheme Annual Report 2009/10
costs of these policies at a fixed rate per customer, regardless of the level of customers’ energy consumption.

FPAG believes that if costs are going to have to be recovered through energy bills, it would be more equitable if costs were to be recovered on the amount of energy consumed rather than as a flat rate per household. Recovering the costs on a consumption, or ‘per unit’ basis, rather than a flat rate per gas and electricity consumer, is more progressive because people on higher incomes tend to use more energy than those on lower incomes especially if more costs were recovered through gas consumers rather than electricity. However, a small percentage of low-income, high energy users would be adversely affected by this approach. To redress this effect, FPAG proposes that policies, such as ECO, should encourage suppliers to target support at vulnerable consumers with high levels of energy consumption. The Warm Home Discount could also be re-designed so that help is directed towards households most affected by a move to consumption-based ECO cost recovery.
Chapter 1: Main Recommendations

The report’s main recommendations to Government are:

1. The declaration of an immediate and unequivocal Government goal to eradicate fuel poverty by 2016.

2. Clarify urgently how the Green Deal and ECO will operate to make sure vulnerable households do not lose out in making their homes energy efficient.

3. DECC and Ofgem should explore options for an alternative arrangement for those unable to access the most competitive energy deal and review holistically the financial impact on low income and vulnerable consumers of recovering government policies through energy bills.

4. Ensure sufficient funding to cover the up-front installation costs of energy efficiency measures, including more expensive measures, for low-income households on a demand-led basis.

5. The attribution of supplier costs for programmes such as ECO and Warm Home Discount, should be based on the amount of energy consumed rather than as a flat rate per household.

6. Demonstrate evidence of the Government’s commitment to tackle fuel poverty by continuing to invest in a strong and effective Warm Front type of programme funded, as a minimum to at least the level of 2010/11.

7. Devote the bulk of the ECO to the Affordable Warmth target and prioritise the fuel poor and low-income households under the carbon target (e.g. solid wall insulation).

8. Initiate the legislative process to extend the data matching powers for customers in receipt of Pension Credit and mandate support through the Warm Home Discount scheme to all customers in receipt of the Cold Weather payment and therefore at high risk of living in fuel poverty.

9. Develop a sustained, co-ordinated campaign to encourage benefit take up. This should not just be left to suppliers – although they can and should play a role (e.g., via the Warm Home Discount Industry Initiative). The Government should allocate a percentage of the total amount of unclaimed benefits to fund delivery of Benefit Entitlement Checks (BECs).

10. BECs to form an integral part of all energy efficiency schemes. In the forthcoming Energy Company Obligation, BECs should play a key role in assisting households on a low income.
Chapter 2: The Hills Fuel Poverty Review

In March 2011, the Secretary of State invited Professor John Hills to undertake an independent review of fuel poverty, with three main terms of reference: to assess whether fuel poverty is a distinct problem or simply a manifestation of more general problems of poverty; if it is distinct, how is it best measured and does the current approach capture the problems most effectively; and what are the implications of this for understanding the effectiveness of the range of policy approaches to reducing fuel poverty. Professor Hills published his interim report on 19 October and will submit his final report to the Secretary of State by the end of January 2012.

FPAG welcomes the findings in Professor Hills’ interim report that fuel poverty is a “distinct – and serious – problem”; that it deserves and requires attention, as recognised by Parliament in adopting the Warm Homes and Energy Conservation Act 2000; and that the Act captures the core of the problem as being the overlap between low income and high fuel costs.

Other key findings are:

- Households in or on the margins of poverty faced £1.1 billion of extra costs (above those on higher incomes) to keep warm in 2009
- Living in cold homes has a number of effects on physical and mental health, which at the extreme end leads to excess winter deaths. If only one tenth of these excess deaths are due to fuel poverty that means 2,700 people in England and Wales are dying each year as a result – more than the number killed in road traffic accidents

Professor Hills has proposed some changes in the way that fuel poverty is measured to better capture the link between low income and high fuel costs. However, he notes that whilst changing the measure can have some impact on numbers, the fact remains that fuel poverty remains at a high level and the problem has worsened in recent years. He concludes that: “doing something about these problems is obviously the priority… It is essential that we improve the energy efficiency of the whole housing stock. But those on low incomes and in the worst housing can neither afford the immediate investment needed nor afford later repayments without additional help.”
Chapter 3: Beyond Warm Front, the Carbon Emissions Reduction Target and the Community Energy Saving Programme

The end of the Warm Front scheme in 2013 will mean that for the first time since 1978 there is no taxpayer-funded programme to install energy efficiency measures in dwellings occupied by vulnerable and low-income households.

FPAG maintains the view that Warm Front has been an extremely successful programme. Since 2000 the scheme has assisted over 2.3 million vulnerable households, with an average saving of £610 per year on their energy bills, and reducing carbon emissions by 6 tonnes over the lifetime of the energy efficiency measures installed.\(^\text{10}\)

However, the Comprehensive Spending Review in 2010 saw the Warm Front budget cut to £110 million in 2011-12 and £100 million in 2012-13 with inevitable significant impacts for those in fuel poverty. The scheme, which at its height in 2008/2009 assisted almost 300,000 households with a budget of £397 million, will assist fewer than 100,000 households over the next two years, meaning tens of thousands of fuel-poor households – with no alternative source of help available – will miss out on the support they need. Changes to the eligibility criteria will focus the limited resources on people on the lowest incomes in the least thermally efficient properties. Meanwhile, FPAG does welcome the Department of Health’s most recent announcement earlier this month, ‘Get ready for winter’ which included “making an extra £10 million available to support existing Government schemes for those at risk of fuel poverty - for example grants for insulation or heating improvements provided through the Warm Front scheme”. While any increase is welcome; this figure remains far below what is urgently required.

In addition, the scheme’s Benefit Entitlement Check (BEC) service identified on average more than £1,600 per year in additional income for those households that successfully received the service; making a life-changing difference to low-income vulnerable households in the greatest need. DECC’s decision not to continue with BECs as part of Warm Front from May 2011 is a decision which FPAG finds hugely regrettable.

In his Interim Findings, Professor Hills notes that “under the current definition, many households with low incomes and relatively high energy requirements were counted as not being fuel poor in 2003 and 2004. Correspondingly, interventions that were targeted on households that might have been thought in common sense terms to be at risk were assessed as benefiting people outside the target group, potentially giving a misleadingly gloomy assessment of their effectiveness”.

It is in this context that we should perhaps reconsider previous reporting of the effectiveness of the targeting of the Warm Front scheme. Various estimates have held that, prior to the 2011 changes in eligibility criteria, between 25-40% recipients of Warm Front were fuel poor under the current definition. This figures increases to 77% since the new eligibility criteria came into place. This compares favourably with, for example, Winter Fuel Payments, where only 19% of recipients are fuel poor. If the effectiveness of the scheme was reassessed to take account of Professor Hills report, then those figures are likely to be significantly higher.

\(^{10}\) Warm Front Annual Report 2010/11
FPAG raises concern that the withdrawal of all taxpayer funding for energy efficiency assistance to low-income households, while the number of households in fuel poverty continues to rise, calls into question whether the Government is fulfilling its obligation to do all that is “reasonably practicable” to eradicate fuel poverty by 2016 as required under the Warm Homes and Energy Conservation Act 2000. FPAG would suggest that taxpayer funded schemes can deliver better results in terms of lifting numbers out of fuel poverty. With obligations recovered from energy bills, any success in lifting households out of fuel poverty is tempered by moving others in due to the added costs on bills.

The Carbon Emissions Reduction Target (CERT) was introduced to incentivise energy efficiency measures and reduce carbon emissions. As a result, millions of lofts and cavities have been insulated and through specific targets for the Priority Group and within this, 15 per cent of the carbon savings are to be made by a Super Priority Group, many financially disadvantaged households have been assisted. The Government’s attempt to achieve both environmental; and social objectives through CERT creates problems for obligated suppliers who find it both difficult and expensive to identify and target priority group customers. It is also important not to lose sight of the fact that CERT is not, and was not designed to be, a fuel poverty programme.

The Community Energy Saving Programme (CESP) combines environmental and social objectives through targeting energy efficiency measures in designated low-income communities in order to produce carbon savings and address fuel poverty. The scheme provides measures on a street by street basis, avoiding the expensive process of identifying fuel-poor households and ensuring available resources can be focused on tackling fuel poverty.

The Green Deal will commence in less than a year at which time the new Energy Company Obligation (ECO) will effectively replace CERT, CESP and Warm Front in providing energy efficiency measures for those-low income and vulnerable customers for whom the standard Green Deal model will not work. Ministers have indicated that the ECO will not be an extension of CERT or CESP, but something very different – FPAG believes this should be clearly demonstrated.

It is the view of most FPAG members that the ECO should provide assistance for both the hardest to reach and the hardest to treat properties, to provide more expensive measures such as solid wall insulation and renewable technologies, but prioritising support for fuel-poor households. There should be a weighting of the target towards fuel poverty eradication as opposed to carbon savings, at least in the early years of the scheme.

**Recommendations:**

- Government should urgently clarify how they envisage the transition from existing schemes to the Green Deal and ECO to ensure vulnerable households do not lose out.

- FPAG would once again emphasise its concerns over the regressive nature of the fund-raising mechanism for the ECO and considers that energy efficiency measures for fuel-poor households should be funded through general taxation.

- FPAG considers it essential that there should be sufficient funding to cover the up-front installation costs of energy efficiency measures, including more expensive measures, for low-income households on a demand-led basis. We seek demonstrable evidence of the Government’s commitment to tackle fuel poverty by continuing to invest in a strong and effective energy efficiency programme.
Chapter 4: The Green Deal and the Energy Company Obligation (ECO)

The Energy Act 2011 offers Government an opportunity to establish an effective framework that can deliver against the twin objectives of eradicating fuel poverty and significantly reducing carbon emissions from the housing stock.

The Energy Act 2011 introduces the Green Deal, which is intended to deliver a national programme of energy efficiency measures to homes and small and medium enterprises. Ministers have stressed that this initiative will provide access for everyone to energy efficiency measures and enable all households to reduce their energy bills and their carbon emissions. The Green Deal Finance Mechanism will comprise a market-based ‘Pay-as-You-Save’ model. Whilst details of the finance model are not yet finalised, the basic principle is that the householder should receive a package of energy efficiency measures, at no up-front capital cost. The repayment mechanism is associated with the property rather than with the householder; consequently, if the occupants of the property change, the obligation to pay the Green Deal charge will pass to the new occupier. The Green Deal has one ‘golden rule’ - that the repayments will be less than the savings achieved from the energy efficiency measures installed.

A number of FPAG members have stressed to Government that the ‘golden rule’ will not be applicable to most fuel-poor households. Such households would be expected to increase the warmth of their home rather than see a reduction in their fuel bills. Previous Government analysis of the installation of energy efficiency measures suggests that, in fuel-poor households, at least 30% of the benefit is taken in the form of increased comfort i.e. a warmer and healthier living environment, rather than financial savings. There is also concern that the Green Deal would be asking people on low incomes to enter into a credit agreement and that those who get in financial difficulties would be treated in the same way as other energy debts.

The Government has partially responded to this issue and DECC’s 2010 ‘Annual Energy Statement’ contained assurances that: “the new obligation (ECO) will underpin the Green Deal and focus particularly on those householders (e.g. the poorest and most vulnerable) and those types of property (e.g. the hardest to heat) which cannot achieve financial savings without a measure of support”. This should mean that eligible fuel-poor households will not be reliant on the Green Deal funding mechanism and can access energy efficiency measures without incurring a charge on their energy meters.

The introduction of ECO is welcomed by FPAG, whose members believe that ECO policy could present a major opportunity to reverse the relentless upward trend in fuel poverty while simultaneously contributing towards the achievement of national carbon reduction targets. However, most FPAG members believe that ECO funding must be dedicated to the alleviation of fuel poverty and not used to subsidise expensive measures for ‘Able-to-Pay’ households as an artificial means of complying with the ‘golden rule’. If the Government were to allow this practice, action on fuel poverty would be seriously diminished and we would face the prospect of financially disadvantaged households subsidising, through a levy on their energy bills, expensive works carried out on behalf of more affluent households.

The Government has also recognised these concerns. A recent paper providing some further information on the ECO states:

“As the delivery costs of ECO are assumed to be recovered by the energy companies through increases in consumer bills and therefore spread across all households, it is important for the credibility of the scheme to ensure that all households have fair access to the benefits, safeguarding distributional equity. In addition to providing for affordable warmth, this includes considering how the benefits of support for solid wall insulation can be delivered equitably.

We are looking into learning the lessons from CERT, particularly the Super Priority Group, in designing the scheme to provide confidence that the poorest and most vulnerable, for whom there can be significant economic and social barriers to accessing support, stand to benefit equitably. This could be delivered by providing a ‘distributional safeguard’, essentially by setting a minimum proportion of the carbon target to be delivered in a defined group of households.”

As noted earlier, the future of fuel poverty policy will be heavily dependent on the level of expenditure provided by the ECO and how this expenditure is allocated. At the same time, it is acknowledged that improvements to hard to treat housing should be a major element in fuel poverty policies and programmes and this is also recognised by Government.

The Impact Assessment for the Energy Act 2011 states:

“As of 2007, 33% of fuel poor households lived in homes built before 1919 and 43% of the fuel poor households lived in homes without cavity wall insulation (defined as cavity walls in less than half the dwelling). It is likely that a large proportion of fuel poor households will fall into the ‘hard to treat’ category”.

The Committee on Climate Change highlighted this key issue in their 3rd Progress Report, commenting:

The particular area of concern is the cost of subsidising solid wall insulation under the ECO which under current proposals would be passed through to all consumers, whether beneficiaries or not. If assessment suggests a significant risk of fuel poverty, mitigating measures that could be introduced include more targeting of the fuel poor under the ECO (e.g. to prioritise solid wall insulation in the 1.9 million fuel poor households that live in solid walled properties).

Some FPAG members believe that the most robust “distributional safeguard” would be to recognise the opportunity to combine the two policy objectives and commit the Energy Company Obligation to a well structured and coordinated fuel poverty programme that can address both social and environmental priorities.

This approach would also have the desired benefit of providing a market transformation in the solid wall insulation industry. Such a transformation would enable the cost of solid wall insulation to be reduced, potentially to a point where it could comply with the ‘golden rule’ enabling Able-to-Pay households to fund these measures through the non-subsidised Green Deal Finance Mechanism.

This would bring about significant overall cost savings to consumers (those paying for ECO) and support the Government’s pre-Copenhagen commitment to reduce non-traded household emissions by 29% by 2020.

The Private Rented Sector has a high prevalence of poorly insulated, energy inefficient buildings, causing high energy cost for its tenants. FPAG therefore welcomes the amendment to the Energy Act 2011 that from April 2016 residential landlords will not be able to unreasonably refuse requests from tenants for consent to energy efficiency improvements and from 2018, all private rented properties must be brought up to a minimum energy efficiency standard rating, making it unlawful to rent out a house or business premise that does not reach this minimum standard. However, FPAG find it regrettable that the start date is seven years in the future, when the people in the least energy efficient housing stock need help to keep warm much sooner.

**Recommendation:**

- FPAG recommends that the bulk of the ECO is devoted to the Affordable Warmth target and that fuel-poor and low-income households should also be prioritised for assistance under the carbon target (*e.g.* solid wall insulation).

- FPAG note that the Energy Act does allow for the regulation regarding the Private Rented Sector to commence prior to 2018 and FPAG call for Government to bring forward this date.
Chapter 5: Warm Home Discount

FPAG welcomes the Warm Home Discount and the use of data matching to provide essential assistance to low-income older households in a cost-effective manner

The Warm Home Discount (WHD) scheme requires energy suppliers to spend £250 million in 2011/12, rising to £310 million by 2014/15, on programmes to support customers living in or at risk of fuel poverty.

The WHD regulations require suppliers to deliver four types of activity:

1. To pay a rebate on electricity bills of £120 in 2011/12 rising to £140 by 2014/15 to customers identified through data matching between information held by the Department for Work and Pensions (DWP) on those in receipt of a subset of Pension Credit and information held by energy suppliers on their customer base. This data sharing is permitted by the State Pension Credit (Warm Home Discount) Regulations 2011. This part of the scheme is known as the Core Group rebate, and represents over half of the scheme’s resources over the four years of the scheme.

2. To pay a rebate of the same amount to a Broader Group of eligible customers indicated by regulations but selected by each supplier and approved by Ofgem as a legitimate fuel poverty risk group.

3. Suppliers may continue to offer some limited tariff support to customers currently being supported on suppliers’ existing social and discounted tariffs for the first three years of the scheme although this will be reduced each year. This is called the Legacy Spending part of the scheme.

4. The final part of the scheme is also capped as suppliers can undertake some of their activity on Industry Initiatives such as donations to Trust Funds and sponsorship of fuel poverty activity delivered by charitable partners.

FPAG was pleased to see that our recommendation from our 2009 Annual Report, that Government should continue with Social Price Support proposals but review them in 2014, was taken forward in this four-year scheme. The need for social price support could decline as properties are upgraded by programmes such as Green Deal and ECO, and eligibility for such support will need to be increasingly focused on those customers who remain in greatest need and for whom improvements in heating and insulation are insufficient to lift them out of fuel poverty. FPAG believes that such improvements represent the most rational and sustainable approach to the eradication of fuel poverty, while addressing the additional issues of energy security and climate change by reducing energy demand.

In the meantime, it is important that the scheme targets the most vulnerable consumers and makes it easier for them to access the help they are entitled to. We acknowledge the work that DECC, DWP and the energy suppliers undertook in the 2010 Energy Rebate Scheme and we welcome the extension of this to a wider group of Pension Credit recipients through the Warm Home Discount scheme. However, we believe that there should be a mandatory extension to all those eligible for the Cold Weather Payments. These comprise low-income households with young children or with a disabled family member and who are undeniably at high risk of fuel poverty. The current
arrangements whereby suppliers set their own eligibility criteria (with the approval of regulator Ofgem), to determine which households should benefit and then identify eligible customers, creates uncertainty and inequity for consumers, and additional costs and inefficiencies for suppliers in delivering the scheme. This means that customers in identical circumstances may or may not benefit at the discretion of the supplier. Extending the data matching powers taken in the Pensions Act 2008 to cover a wider group of benefit recipients would represent a much more efficient use of resources in order to support greater numbers of disadvantaged households. FPAG recognises that this would require primary legislation.

Furthermore, we have some concerns about the regressive nature of the funding for the scheme which is discussed further in the chapter ‘Environmental Measures and their Cost Recovery’.

It must also be noted that the cash value of the Warm Home Discount is approximately equivalent to the increases in average annual energy bills resulting from higher charges taking effect from autumn 2011. These increases are indicative of an upward rise in energy prices which FPAG believes to be both long term and irreversible; as such there is a question about the ambition of the Warm Home Discount. On the other hand, a more ambitious scheme would exacerbate inequity if it were to be funded through additional regressive levies on consumers’ bills.

**Recommendations:**

- FPAG would urge DECC to seek the legislative basis to extend the data matching powers for customers in receipt of Pension Credit in order to offer mandatory support through the Warm Home Discount scheme to all customers in receipt of the Cold Weather Payment and, therefore, at high risk of fuel poverty.

- In recognition that programmes such as the Warm Home Discount, whilst offering valuable support, are funded regressively from all energy consumers, FPAG would wish to see a stronger Government commitment to fuel poverty programmes funded through general taxation.
Chapter 6: Income and Benefit Take Up

Up to £12.7 billion in means-tested benefits went unclaimed in 2008-9\(^\text{13}\). Benefit Entitlement Checks have been dropped from the latest round of the Warm Front scheme and there is no indication that they are to form a part of any new energy efficiency scheme.

Poverty and fuel poverty

Living on a low income is a significant factor in whether a household is able to afford the fuel it needs for a warm and healthy living environment. In 2009-10 there were 3.8 million children, 7.9 million adults and 1.8 million pensioners living below the poverty line.\(^\text{14}\)

Households with the lowest incomes are much more likely to be fuel poor than others. Figures from the Department of Energy and Climate Change (DECC),\(^\text{15}\) show that in 2009 45% of households in fuel poverty (1.8 million households) were in the first (lowest) income decile and a further 27% (over 1 million households) were in the second decile. Over 97% of fuel-poor households were in the lower income half of the population. Addressing income poverty is key to tackling fuel poverty.

Fuel costs

The last few years have seen energy prices rise substantially. Although there was a small drop in both electricity and gas prices in 2010 compared to 2009, over the four years from 2007 to 2010 the average electricity bill rose by 14% and the average gas bill by 27%\(^\text{16}\).

These increases in the cost of fuel have far outstripped increases in household income and have hit the poorest hardest. In 2010 most benefits and tax credits were uprated in line with the retail price index (RPI) which measures increases in the costs of a wide range of goods and services. Over 2010, RPI varied from 3% to 5\(^\text{17}\). Increases in earnings also lag far behind increases in fuel prices, with full time employees earning on average just over 2 per cent more than they did in 2009, and the national minimum wage for adults increasing by around the same amount.\(^\text{18}\)

Those with the lowest incomes are least able to absorb these price rises, as fuel makes up a much more significant proportion of their incomes than is the case for those on higher incomes. In 2009 the lowest income decile spent almost 8% of income on fuel; the highest income decile spent only 3.4%. This has contributed to the fact that over the last decade lower-income households, particularly those for whom state benefits make up the largest part of their income, have experienced higher rates of ‘household inflation’ than higher income households.\(^\text{19}\)

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\(^{14}\) Data from Department for Work and Pensions (2011) *Households Below Average Income.*


\(^{16}\) DECC (2011) *Average annual domestic electricity bills by home and non-home supplier* and DECC (2011) *Average annual domestic gas bills by home and non-home supplier.*


\(^{19}\) Figure calculated using data on historical rates from http://www.lowpay.gov.uk/

If fuel price rises are not accompanied by compensatory increases in income – or decreases in other expenditure, through reduced prices – they inevitably push more people into fuel poverty and existing fuel-poor households in to deeper fuel poverty.

**Benefit take up**

The latest Government figures show that 41 per cent of fuel-poor households were not in receipt of means-tested benefits or tax credits below a predetermined threshold. However, it seems likely that in many cases this is a result of households not claiming their full benefit entitlement.

Up to £12.7 billion in means-tested benefits went unclaimed in 2008-9. This means that as much as a quarter of all available benefit expenditure was not claimed. In the same year, up to £7.5 billion of tax credit expenditure was not claimed, with up to three quarters of available expenditure on working tax credits for those without children going unclaimed.

Changes to benefits proposed in the Welfare Reform Bill, including the reduction of Housing Benefit, will see almost all existing benefits and tax credits subsumed into one Universal Credit, made up of different elements depending on individual circumstances. The exception to this is Council Tax Benefit, which will be devolved to the local level. As claimants only need to make one application rather than apply for different benefits separately, it is hoped that there will be some improvement in take-up rates as a result of the introduction of Universal Credit, however there are still areas of concern.

The need to make only one application will help a particular group of people who under-claim; those who are currently claiming some benefits, but not all of those to which they are entitled. However there is no reason to expect that those who are eligible for one or more benefits, but are currently not claiming anything, will be any more likely to make a claim under the new system. In addition, Council Tax Benefit will be a matter for local Government, coming out of local budgets and dependent on local eligibility criteria. Applications will have to be made separately and there is a danger that take up will not be heavily promoted by local authorities. And finally, Universal Credit will not be fully rolled out until 2017, meaning that many benefit and tax credit recipients will continue to be treated under the current system for a considerable time to come.

The case for encouraging benefit take up initiatives therefore remains compelling.

**Impact of Benefit Entitlement Checks (BECs)**

The work of utility trusts, voluntary organisations and local authorities shows how effective BECs can be in increasing the income of those at risk of fuel poverty. Some examples of benefit take-up work and its significant positive outcomes are given below.

- The Warm Front Scheme completed over 350,000 BECs between 1997 and 2010, when this element of the scheme ended. It delivered average increases in weekly income of £35, and in

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2009-10 almost a third of those who were initially identified as ineligible for Warm Front became eligible following the BEC.  

- The Royal British Legion and the Royal Air Force Benevolent Fund have supported Citizens Advice in offering advice on benefits and money matters to serving and former members of the Armed Forces. Since the scheme launched in May 2007, it has helped over 22,800 people, who are better off by a total of over £66.4 million. In the nine months from October 2010 to June 2011, advisers helped clients claim a total of £4.1 million in benefits, an average of £624 per client.

- Between March 2010 and February 2011 Hyde Charitable Trust completed financial health checks on behalf of 167 residents of Hyde Housing, which included BECs, debt advice, help with budgeting, information on savings and assistance in applying for grants. The average financial gain per resident was £461 per year.

**Recommendations:**

- We reiterate our call, made in FPAG’s 8th annual report, for a sustained, continuous and properly co-ordinated campaign to encourage benefit take up. This should not just be left to suppliers – although they can and should play a role – but is a matter for Government, as well as the voluntary and community sector, consumer organisations and local authorities.

- The Government should allocate a percentage of the total amount of unclaimed benefits to fund delivery of BECs. As we have previously stated, there may be a useful precedent to draw on in terms of using unclaimed money for socially useful purposes in the example of the UK dormant accounts scheme.

- Suppliers should consider funding BECs as part of the Warm Home Discount Industry Initiative. Under this initiative, there will be up to £30 million available (ultimately paid for by energy consumers). This resource provides an ideal opportunity to co-ordinate work across sectors, and provide a real difference to benefit take up provision. This would not only improve incomes, but would also help people to access the Warm Home Discount Broader Group rebate, since eligibility for this rebate will be linked to receipt of specific benefits.

- BECs must form an integral part of all energy efficiency schemes, particularly those targeted at people on low incomes, in the forthcoming Energy Company Obligation, BECs should play a key role in assisting low-income households.

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25 Connecting with communities. The Warm Front Scheme Annual Report 2009/10
Chapter 7: Energy Price Trends and Impacts on Fuel Poverty

FPAG estimate that for every 1% rise in energy prices a further 45,000 – 60,000 households are pushed into fuel poverty.

The great challenge for energy policy in the next decade and beyond is how to achieve security of supply and decarbonisation at an affordable cost. Around 20% of UK households currently need to spend more than 10% of their income on gas and electricity to maintain an acceptable level of energy services - affordability is thus already a real issue for many. Customers are exposed to price volatility in the gas and electricity markets which can make it very difficult for those on low incomes to budget for their energy bills. In the future, both gas and electricity prices are likely to increase due to a number of factors, some worldwide and some UK-specific.

At the world level, North Sea gas production is declining and the UK is increasingly dependent on gas imports from other countries (Russia, Middle East etc.) and those gas exporting nations also have growing markets for their gas beyond Europe. Demand for gas worldwide is predicted to increase significantly.

At the UK and EU level, policies to deliver security of supply, reduce pollution and reduce carbon emissions will further impact on electricity and gas prices.

Under the current generation mix, and for the foreseeable future, there is a strong correlation between gas and power prices. Meanwhile, ageing generation assets must be replaced and electricity must become substantially low carbon by 2030. The Industrial Emissions Directive, flexibility mechanisms and nuclear life extensions may play an important role as a bridge until new low-carbon capacity can come on line. The future cost of electricity will be heavily influenced by technology choices and commodity prices. New generation capacity will be needed if Great Britain is to maintain its traditional 20% capacity margin.

Achieving the UK’s legally binding and voluntary targets to reduce carbon emissions will require new investment in low and zero carbon electricity generation, and substantial improvements in energy efficiency to help reduce energy demand. Over the medium to long term, investment in low carbon generation may offer the opportunity to reduce the impact of gas price volatility on electricity prices but, over the medium term, the investment needs will increase prices.

The Government has declared its intent for a UK carbon floor price that will see the current price of carbon at c. £11.50 per tonne rise to £30 per ton by 2020 subject to the Annual Budget debate. This will be achieved by taxing coal, gas and oil burnt in power stations which are currently exempt from the climate change levy. In addition through the Electricity Market Reform, there will be an agreed price for output through a Contract For Difference (CFD) compared to the market price. Should the market price exceed the agreed price in a very high fossil fuel price scenario, then the CFD would work in reverse. Meanwhile, there is a growing concern that existing nuclear generators and other low carbon generators could receive a windfall gain as higher market prices are inevitable through these policy changes and tend to benefit existing nuclear generation.

These significant government interventions on the supply side should now require an examination of potential market correction on the demand-side. FPAG has been a regular commentator on the issues of the fuel-poor constituency’s inability to access the best energy deal compared to the
computer-literate and Internet connected consumer. Approximately half of all fuel-poor households consist of pensioners who, in addition to the challenges caused by the complexities of IT, are increasingly risk averse through age and hence more likely to be a long-term legacy customer of an energy supplier.

**Recommendations:**

- In order to adequately prepare for the future, Government needs to produce a realistic range of energy price scenarios, to inform the development of policies to mitigate the impact of high prices on low-income and vulnerable households.

- To mitigate the impact of costs of environmental programmes on low-income households, the pace and scale of energy efficiency improvements to their homes needs to be substantially increased – in other parts of this report we make specific recommendations on what this means for the planned Energy Company Obligation and the Green Deal.

- Consideration should be given to alternative arrangements for those low income consumers who are unable to benefit from competition in the energy retail market. Ofgem and DECC should carry out a thorough examination of how suppliers' costs are attributed to different types of customers to assess the potential for a fairer distribution of prices between low and high income consumers.
Chapter 8: Environmental Measures and their Cost Recovery

FPAG believes that the recovery of costs associated with environmental policies should be based on the amount of energy consumed rather than as a flat rate per household, thereby providing a more progressive method of recovering these costs from consumers.

Policies to tackle climate change and boost energy efficiency and diversity are funded in two ways - from the taxpayer or through charges on consumers’ bills.

In the Comprehensive Spending Review in October 2010, the Government decided to make £1 billion available from the public purse (the taxpayer) for Carbon Capture and Storage demonstration projects and £860 million for the Renewable Heat Incentive. In the same review Government decided to reduce, and subsequently end by March 2013, funding for Warm Front – currently also funded from the public purse.

But energy companies are increasingly responsible for delivering Government climate change and social policy objectives, and the funding for this is collected from consumers’ bills. Initiatives funded in this manner currently include:

- The Renewables Obligation (RO)
- The Feed-in Tariff (FiT)
- The European Union Emissions Trading Scheme (ETS)
- The Warm Home Discount (WHD)
- The Community Energy Saving Programme (CESP)
- The Carbon Emissions Reduction Target (CERT).

Source: Ofgem Factsheet 97 18/01/2011

The average bills above are based on average annual consumption figures of 3,300 kWh for electricity and 16,500 kWh for gas, averaged across all big six suppliers and across Great Britain. We introduced these revised figures for typical household consumption on 17 January 2011.
As shown in the chart above, a higher proportion of costs are recovered through electricity bills compared to gas bills, indeed the costs of all the programmes listed above are passed through to electricity consumers; only the costs of CERT and CESP are also passed through to gas consumers.

The basis on which costs fall on companies varies according to the way in which Government requires companies to meet the policy objectives.

Costs of the RO, FIT and ETS fall upon companies according to the amount of energy consumed by their customers. Assuming costs are recovered where they fall, companies would be likely to pass the costs of meeting these policies through to consumers on the basis of units of energy consumed.

By contrast, the costs of the WHD, CERT and CESP fall on companies according to the number of customer market share subsequently companies would be likely to pass the costs of these policies at a fixed rate per customer. Thus there is no relationship between consumers’ contribution towards the costs of these programmes and their level of energy consumption.26

The 8th Fuel Poverty Advisory Group Annual Report pointed out that climate change policies funded through levies on energy bills are inherently regressive since low-income consumers spend a much higher proportion of their income on energy than more affluent consumers. In this, our 9th report, FPAG specifically calls for an end to contributions from consumers that bear no relationship to the level of their energy consumption.

Our starting point for policy change is the ECO which will be launched in autumn 2012 alongside the Green Deal. If the costs of ECO are to be recovered from energy consumers, FPAG believes that the recovery should be based on the amount of energy consumed rather than as a flat rate on households. Recovering the costs of ECO on a consumption, or ‘per unit’ basis, rather than a flat rate per gas and electricity consumer, is more progressive because people on higher incomes tend to use more energy than those on lower incomes (see Table A1 in Appendix 1).

Most members also favour moving more of the burden of ECO costs to gas consumers, rather than sharing costs equally between gas and electricity consumers. This is because electricity consumers currently bear a much higher level of carbon policy costs than gas consumers (currently 12 per cent of average bills for electricity consumers and 4 per cent for gas consumers). This disparity will continue to rise as current carbon policies progress. The disproportionate loading of environmental costs on to electricity could also have perverse future outcomes in that it could deter usage of a fuel that should become increasingly low carbon as a wide range of policies take effect.

We also want to see the policies take account of consumers on low incomes who heat their homes with electricity and face particular detriment. We are aware that a small percentage of low-income, high energy users would be adversely affected by a move to the recovery of costs according to the volume of energy used and we make a number of constructive recommendations. Households that fall into the category of ‘low income, high users’ include:

- retired couples and single elderly households without gas
- retired couples and single elderly persons in larger than average homes with gas central heating

26 See Preston & White (2011), Reviewing the evidence for a fairer recovery of climate change policy costs, Consumer Focus and Croft (2011), Costs of the ECO: the impact on low income households, Eaga CT for further discussion of fuel companies’ recovery of climate change and social policies.
FPAG would propose that policies such as ECO should be designed to encourage suppliers to target support at vulnerable consumers with necessarily high levels of energy consumption. The Warm Home Discount could also be re-designed so that help is directed towards households most affected by a move to consumption-based ECO cost recovery.

In the longer term, we propose further investigation of fuel companies’ recovery of other fixed infrastructure costs, such as those for transmission and networks. Assuming costs are recovered where they fall, companies would be likely to collect these costs at a fixed rate per consumer. A move to varying these costs according to consumption could also benefit the majority of low income consumers.

**Recommendations:**

- FPAG believes the attribution of ECO costs should be based on the amount of energy consumed rather than as a flat rate per household.

- The Government should set the ECO according to a simple ‘per kWh’ basis across all gas and electricity consumption. This would lead to around 62 per cent of ECO costs falling on gas consumers and 38 per cent on electricity consumers, reflecting the higher amount of gas consumed. This would help redress the imbalance in policy costs currently apportioned to gas and electricity consumers.

- An alternative or complimentary policy could be developed that provided a ‘contribution free allowance’ for initial electricity use or a ‘contribution free allowance’ for Economy 7 users - predominantly those with electric heating.

- The statutory instrument for CERT dictates how the regulator, Ofgem, apportions the overall target between suppliers. A new statutory instrument for ECO is needed to apportion the overall target between suppliers and the energy used by suppliers’ customers.

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27 Source: CSE (2011), *Understanding ‘high use low income energy consumers’,* Ofgem
Appendix I

Figure A.1: Energy consumption by income decile

Figure A1 below shows how energy consumption generally increases with income. However, it also illustrates that a small number of low income consumers have relatively high energy use and similarly some higher income consumers have relatively low energy use.
Table A1: Average energy consumption by income decile

Table A1 below gives the average level of energy consumption by income decile.

<table>
<thead>
<tr>
<th>Income decile</th>
<th>Electric heating consumers</th>
<th>Gas heating consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Electricity use kWh</td>
<td>Electricity use kWh</td>
</tr>
<tr>
<td>1</td>
<td>7,381</td>
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</tr>
<tr>
<td>2</td>
<td>8,148</td>
<td>2,921</td>
</tr>
<tr>
<td>3</td>
<td>8,665</td>
<td>3,303</td>
</tr>
<tr>
<td>4</td>
<td>8,733</td>
<td>3,504</td>
</tr>
<tr>
<td>5</td>
<td>9,069</td>
<td>3,741</td>
</tr>
<tr>
<td>6</td>
<td>9,423</td>
<td>3,950</td>
</tr>
<tr>
<td>7</td>
<td>9,587</td>
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</tr>
<tr>
<td>8</td>
<td>10,154</td>
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</tr>
<tr>
<td>9</td>
<td>11,191</td>
<td>4,389</td>
</tr>
<tr>
<td>10</td>
<td>12,008</td>
<td>4,703</td>
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</tbody>
</table>

Figure A2: Access to gas by income decile

Figure A2 illustrates how access to gas is generally lower for lower-income deciles. Thus, these consumers are more reliant on electricity and other heating fuels to heat their homes.
Table A2: Heating fuel by fuel poverty status, Great Britain 2008

Table A2 shows that households without mains gas heating are more likely to live in fuel poverty than those with gas heating source: Baker, W (2011) Off-gas consumers – information on households without mains gas heating, Consumer Focus.

<table>
<thead>
<tr>
<th>Fuel poverty target definitions</th>
<th>Mains gas</th>
<th>LPG Bot</th>
<th>Heating Oil</th>
<th>Solid fuel</th>
<th>Electric heating</th>
<th>Com-munal</th>
<th>Total</th>
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<tbody>
<tr>
<td>Not in fuel poverty</td>
<td>17,732</td>
<td>82</td>
<td>742</td>
<td>170</td>
<td>1,677</td>
<td>253</td>
<td>20,656</td>
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<tr>
<td></td>
<td>85.8</td>
<td>0.4</td>
<td>3.6</td>
<td>0.8</td>
<td>8.1</td>
<td>1.2</td>
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<tr>
<td></td>
<td>85.3</td>
<td>48.0</td>
<td>67.1</td>
<td>54.8</td>
<td>71.8</td>
<td>89.4</td>
<td>82.6</td>
</tr>
<tr>
<td>In moderate fuel poverty (10–20%)</td>
<td>2,543</td>
<td>60</td>
<td>269</td>
<td>98</td>
<td>512</td>
<td>24</td>
<td>3,507</td>
</tr>
<tr>
<td></td>
<td>72.5</td>
<td>1.7</td>
<td>7.7</td>
<td>2.8</td>
<td>14.6</td>
<td>0.7</td>
<td>100.0</td>
</tr>
<tr>
<td></td>
<td>12.2</td>
<td>35.1</td>
<td>24.3</td>
<td>31.6</td>
<td>21.9</td>
<td>8.5</td>
<td>14.0</td>
</tr>
<tr>
<td>In severe fuel poverty (&gt;20%)</td>
<td>502</td>
<td>30</td>
<td>91</td>
<td>39</td>
<td>138</td>
<td>5</td>
<td>805</td>
</tr>
<tr>
<td></td>
<td>62.4</td>
<td>3.7</td>
<td>11.3</td>
<td>4.8</td>
<td>17.1</td>
<td>0.6</td>
<td>100.0</td>
</tr>
<tr>
<td></td>
<td>2.4</td>
<td>17.5</td>
<td>8.2</td>
<td>12.6</td>
<td>5.9</td>
<td>1.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Total in fuel poverty</td>
<td>3,046</td>
<td>90</td>
<td>360</td>
<td>139</td>
<td>649</td>
<td>30</td>
<td>4,313</td>
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<tr>
<td></td>
<td>70.6</td>
<td>2.1</td>
<td>8.3</td>
<td>3.2</td>
<td>15.0</td>
<td>0.7</td>
<td>100.0</td>
</tr>
<tr>
<td></td>
<td>14.6</td>
<td>52.6</td>
<td>32.5</td>
<td>44.8</td>
<td>27.8</td>
<td>10.6</td>
<td>17.2</td>
</tr>
<tr>
<td>Total households</td>
<td>20,799</td>
<td>171</td>
<td>1,106</td>
<td>310</td>
<td>2,336</td>
<td>283</td>
<td>25,005</td>
</tr>
<tr>
<td></td>
<td>83.2</td>
<td>0.7</td>
<td>4.4</td>
<td>1.2</td>
<td>9.3</td>
<td>1.1</td>
<td>100.0</td>
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<td></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

1 Definition of fuel poverty is significantly different in Scotland than in England and Wales. The preferred target definition in each country is combined in this table.
2 Fuel poverty status of 37,000 households in Scotland not known.
Figure A3: ECO and Warm Front costs by income quintile

Figure A3 below shows the proportion of total policy costs paid by income quintile. It compares the costs of recovering ECO on a ‘per household’ basis, on a ‘per unit’ basis and on a ‘per unit plus ‘contribution-free allowance’ basis. It also shows the relative tax contribution to Warm Front by income quintile. The graph shows that the ‘per household approach’ represents the most regressive method of paying the costs, while Warm Front cost recovery is the most progressive.

Source: Croft (2011), Costs of the ECO: impact on low-income households, Eaga CT
Appendix II

Membership of the Fuel Poverty Advisory Group:

- Derek Lickorish  Chair
- Dr Gill Owen  Vice Chair

Member Organisations:

- Age UK
- Association for the Conservation of Energy
- British Gas
- Carillion Energy Services
- Child Poverty Action Group
- Citizens Advice Bureau
- Consumer Focus
- EDF Energy
- Energy Efficiency Partnership for Homes
- Eon UK
- Local Government Association
- National Energy Action
- National Grid
- National Heart Forum
- Public Utilities Access Forum
- RWE NPower
- Scottish and Southern Energy
- Scottish Power
Terms of Reference

The Fuel Poverty Advisory Group is an Advisory Non-Departmental Public Body sponsored by DECC. Its primary task is to report on the progress of delivery of the Government’s Fuel Poverty Strategy and to propose and implement improvements to regional or local mechanisms for its delivery.

The role of the Group is:

- To consider and report on the effectiveness of the current policies in delivering reductions in fuel poverty and the case for greater co-ordination;
- To identify barriers to the delivery of reductions in fuel poverty and to the development of effective partnerships, and propose solutions;
- To consider and report on any additional policies needed to deliver the Government’s targets;
- To enthuse, and encourage, key players to tackle fuel poverty;
- To consider and report on the results of the work to monitor fuel poverty.

As will be seen, the Group consists of a wide range of organisations with different views and this is one of its strengths. On many of the issues there is a very large measure of agreement. On others especially EEC and energy prices there are more differences and the views in this report do not always therefore reflect the views of individual members.