

Fuel Poverty

Quick Guide

April 2011

Introduction

Fuel poverty can be measured against two definitions: full income and basic income. The full income definition, which the Welsh Government uses as the main measure in its most recent statistical release, is:

A household is said to be in fuel poverty if, in order to maintain a satisfactory heating regime it would be required to **spend more than 10% of its income (including Housing Benefit or Income Support for Mortgage Interest)** on all household fuel use [my emphasis].¹

A household is deemed to be in basic income fuel poverty if it is required to spend more than 10 per cent of its income (**excluding** Housing Benefit or Income Support for Mortgage Interest) on all household fuel use.² A household is defined as being in **severe fuel poverty** should it spend more than 20 per cent of its income on household fuel use.³

The two major factors which determine the fuel poverty status of a household are the **amount of income received by the household** and the **amount of household income that is spent on fuel**. Fuel expenditure is determined by a variety of factors, including fuel prices, the level of energy efficiency in the home, and whether the home is under occupied. In the case of households experiencing severe fuel poverty, the Buildings Research Establishment (BRE) believes that income levels are the major cause.⁴

Fuel poverty statistics

In November 2010 the Welsh Government published a **statistical release** on fuel poverty based on the **Living in Wales Property Survey 2008**, along with **four reports** that BRE had been contracted to produce. **It is estimated that approximately 332,000 households, or 26 per cent of all households in Wales, were experiencing fuel poverty in 2008.** This is an increase of around 198,000 households or 15 percentage points since 2004, when the previous Welsh Government figures were published. It is estimated that approximately 60,000 households, or 5 per cent of all households in Wales, spend over 20 per cent of their income on fuel, and are consequently in severe fuel poverty.⁵

The Welsh Government's statistical release also states that **approximately 285,000 of the households in fuel poverty are defined as vulnerable households**. In the context of fuel poverty, a vulnerable household is defined as

¹ Building Research Establishment (for Welsh Government), **Living in Wales 2008 – Fuel Poverty Statistics** [accessed 10 December 2010]

² Ibid.

³ Ibid.

⁴ Ibid.

⁵ Building Research Establishment (for Welsh Government), **Living in Wales 2008 – Fuel Poverty Statistics** [accessed 10 December 2010]

one whose members fall into at least one of three categories: children aged under 16; adults aged 60 and over; or a person who is long-term sick or disabled.⁶ This is an increase of 172,000 households since 2004.

Welsh Government figures estimate that 22 per cent of households in urban areas⁷ were in fuel poverty, compared to 42 per cent of rural areas. Research carried out by BRE on behalf of the Welsh Government also provides a comparison of fuel poverty levels in Mid, North and South Wales (figures are not available at local authority or constituency level), and this is set out in Table 1 below:

Table 1: Fuel Poverty by Geographical Region – Full Income definition

Region	Fuel Poor			Non Fuel Poor			Total		
	Number of households (000s)	Percentage of fuel poor households	Percentage of group	Number of households (000s)	Percentage of non fuel poor households	Percentage of group	Number of households (000s)	Percentage of all households	Percentage of group
North Wales	75	22.7	27.6	198	21.1	72.4	273	21.6	100.0
Mid Wales	92	27.7	34.9	171	18.3	65.1	263	20.8	100.0
South Wales	165	49.6	22.5	567	60.5	77.5	732	57.7	100.0
Total	332	100.0	26.2	936	100.0	73.8	1,268	100.0	100.0

Source: Buildings Research Establishment (for Welsh Government), **Living in Wales 2008 – Fuel Poverty Statistics**

Analysis carried out by BRE concludes that dwellings in South Wales have a higher Standard Assessment Procedure (SAP)⁸ rating than dwellings in other areas, and therefore better energy performance leading to lower expenditure on fuel.

Fuel Poverty Strategy

In July 2010 the Welsh Government published a new **Fuel Poverty Strategy** which aims to:

reduce the number of households currently living in fuel poverty in Wales, and to take action that will help to achieve the target that, as far as is reasonably practicable, **no household in Wales will be living in fuel poverty by 2018** [my emphasis].⁹

The strategy sets out the objectives of the new **Fuel Poverty Programme**, known as **Nest**, which replaced the Home Energy Efficiency Scheme (HEES) in April 2011.

British Gas, The Welsh Government and the Energy Savings Trust are working together to implement this new scheme. Nest offers eligible householders a range of free home improvements to enable them to heat their homes more efficiently. These improvements include loft and cavity wall insulation, solid wall insulation, draft proofing and boiler replacement.

Welsh Government schemes to tackle fuel poverty

- **Nest** is the Welsh Government's new flagship scheme to combat fuel poverty in Wales. Nest offers a variety of services including energy efficiency improvements, guidance on benefit entitlement, energy tariffs and money

⁶ Welsh Government, **Living in Wales 2008 : Fuel Poverty** [accessed 14 December 2010]

⁷ 'Urban' as defined by the Office for National Statistics

⁸ The Buildings Research Establishment state that a SAP rating is the UK Government's recognised methodology for calculating energy performance of dwellings.

⁹ Welsh Government, **Fuel Poverty Strategy 2010**, 23 July 2010, p1

management.

- The **Arbed** programme was established in 2009 to co-ordinate investment into Welsh homes. The first phase of the programme is currently underway, and £30 million is being spent during 2010-11 on working with social landlords to fit insulation and renewable technologies into homes in deprived areas of Wales;
- The **Welsh Housing Quality Standard** aim to ensure that energy costs are kept down in social housing by requiring a minimum 'D' Energy Performance Certificate rating to achieve the standards;
- The Welsh Government also provides funding to **National Energy Action Cymru**, a charity which assists it in its work to eradicate fuel poverty.

Energy supplier obligations to tackle fuel poverty

Energy suppliers have a responsibility to improve the energy performance of homes in Wales through the delivery of the **Carbon Emission Reduction Target** (CERT), which is a UK-wide programme that primarily delivers loft and cavity wall insulation and requires all domestic energy suppliers with a customer base in excess of 50,000 customers to make savings in the amount of CO2 emitted by householders;

The **Community Energy Saving Programme** (CESP) commenced in 2009 and placed a new obligation on suppliers and generators to deliver £350 million worth of energy efficiency measures in the poorest communities across England, Scotland and Wales.¹⁰

Social price support

Under the **Energy Act 2010**, which covers Great Britain, there will be a **mandatory requirement for energy suppliers to provide social price support (direct assistance with energy bills) from April 2011**, which could be in the form of social tariffs, debt relief, installation of energy efficiency measures or trust funds. This requirement will act as a replacement and extension to the voluntary agreement between the UK Government and UK gas and electricity suppliers under which they agreed to offer assistance with energy costs to vulnerable customers in 2008.¹¹

As part of the mandatory requirement, the UK Government announced in the **Comprehensive Spending Review** that energy suppliers would be required to spend £250 million in 2011/12, rising to £310 million by 2014/15, on providing assistance with energy costs for vulnerable consumers in the UK. This support will be delivered through **Warm Home Discount** and the regulations which would implement the scheme will have effect in England, Scotland and Wales. The Department of Energy and Climate Change recently undertook a **consultation** on the Warm Home Discount.

Ofgem review of the effectiveness of the retail energy market

In 2008, **Ofgem** conducted an investigation into energy suppliers' pricing behaviour as part of an Energy Supply Probe, and has been monitoring the retail markets since then.

¹⁰ Welsh Government, **Fuel Poverty Strategy 2010**, July 2010 (accessed 16 September 2010)

¹¹ **Energy Act 2010**, explanatory notes, part 2

In winter 2010-11, three of the six major energy suppliers in the UK announced price increases. As a result of this in November 2010 Ofgem announced its intention to **review** the effectiveness of the retail energy market in the United Kingdom, and intends to complete this work by March 2011.¹² The terms of reference for the review are as follows:

- an assessment of the current state of the effectiveness of the retail market;
- a review of progress energy companies have made on implementing Ofgem's reforms;
- Ofgem's next report on retail and wholesale prices.¹³

Further information

For further information on aspects of fuel poverty, please contact Gareth Thomas (GarethDavid.Thomas@wales.gov.uk) or Hannah Johnson (Hannah.Johnson@wales.gov.uk), Research Service.

For further information on the topics below, double click on the links.

- The **Home Heat Helpline** (0800 33 66 99) is a free, not for profit phone line that provides help to British energy customers who are struggling to pay their fuel bill and keep warm.
- **Warm Wales - Cymru Gynnes** was set up by National Grid in 2004 in order to meet its corporate responsibility to the UK Government and deliver benefits to 1 million fuel poor homes through the 'Affordable Warmth' Programme.
- The **Energy Saving Trust** operates a **grants and discounts database** that can identify potential sources of funding and help, tailored to individual circumstances. They can also provide advice via their helpline, **0800 512 012**.

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The Research Service has produced this Quick Guide for the benefit of Assembly Members and their support staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

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¹² Ofgem, **Ofgem to review the effectiveness of the retail energy market to see if further action is needed to protect customers**, 26 November 2010 [accessed 14 December 2010]

¹³ Ibid.