Lessons from the Hills fuel poverty review

Fuel Poverty Researchers Network, 29 March 2017
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The Hills review

- Long, protracted process:
  - Took a long time to find somebody to lead: ‘poisoned chalice’?
  - Call for evidence
  - Interim report and consultation
  - Final report

- Terms of reference
  - Is fuel poverty a distinct problem?
  - How should fuel poverty be measured?
  - Implications of measurement for fuel poverty policy
Our concerns with original review

1. Would put fuel poverty policy ‘on hold’
   - Concern well-founded: no new policies for 2 years
   - Cuts in existing programmes, e.g. abolition of Warm Front

2. Undue influence of current policy concerns on definition:
   - What are the resources available?
   - How do we increase targeting efficiency?

3. Definition should show impact of policy on extent of problem
Distinct nature of fuel poverty

“For any given level of income, households have an unequal capability to convert income into adequate warmth due to the considerable variation in the standards of their homes. This is distinct from, and additional to, those deprivations associated with insufficient income itself”, Eldin Fahmy, Bristol University

Fuel poverty accounts for the largest poverty premiums faced by low income households:

- Much less likely to switch fuel supplier or tariff: £233

- More likely to pay by prepayment meter: £38

Personal Finance Research Centre, 2016, *The poverty premium*
Measurement: Hills concerns

1. Accepted ‘required spend’ or ‘energy needs’ concept:
   ○ Many low income households ration their energy use

2. Main concern: comparison of ‘energy needs’ with ‘incomes’
   ○ Fixed ratio of 10% based on out of date spending patterns
   ○ Indicator is overly sensitive to fuel price changes

3. Other concerns:
   ○ Treatment of housing costs
   ○ Incomes not equivalised
   ○ No regular measurement of home temperature standards
   ○ Disability benefits treated as income yet meant to cover extra costs of disability
The Hills Low Income High Costs Indicator

Fuel poor if:
- Required fuel costs are above the median level
- If a household spends that amount, left with an income below poverty line

Fuel poverty gap:
Extent to which energy needs of fuel poor exceed reasonable costs
Our response to LIHC indicator

- Disagreed with setting energy costs threshold at median
  - Does not reflect unaffordable energy
  - 1.3m low income households live in cold homes but not ‘LIHC fuel poor’
  - Consequences of setting threshold at 50%
  - Little support for setting threshold at median

- Headcount measure: little value as an indicator
  - Insensitive to changes in prices, energy efficiency standards, policy
  - Gap measure: abstract concept by itself
  - Fuel poverty gap measure already existed for 10% definition
Hills review: other key features

1. Fuel poverty is a serious problem - past and current policies not adequate
2. Relative nature of LIHC indicator ‘hard-wires’ concern with distributional impact of policies
3. Income measured after housing costs and equivalised
4. Little change in ‘head count’ measure - ‘fuel poverty’ virtually impossible to eliminate
5. Gap measure more important than ‘head-count’ for policy and target setting
6. Composition of fuel poor changes:
   - Proportionately more families and fewer pensioners
   - Proportionately more large properties
7. ‘A degree of imprecision in targeting may be desirable’: churn, reduce fuel poverty risk
8. Supplier obligation funding more cost effective than public funding
## Our response to other features of Hills review

<table>
<thead>
<tr>
<th>Feature</th>
<th>Response</th>
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<tbody>
<tr>
<td>Fuel poverty policies inadequate</td>
<td>Agree</td>
</tr>
<tr>
<td>Hard-wires distributional concerns into policy</td>
<td>✓</td>
</tr>
<tr>
<td>Income measured after housing costs and equivalised</td>
<td>✓</td>
</tr>
<tr>
<td>Little change in numbers</td>
<td>✗</td>
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<tr>
<td>Gap measure more important than head-count for policy &amp; target setting</td>
<td>✗</td>
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<tr>
<td>Proportionately more families and fewer pensioners</td>
<td>?</td>
</tr>
<tr>
<td>Proportionately more large properties</td>
<td>✗</td>
</tr>
<tr>
<td>Imprecise targeting can be beneficial</td>
<td>✓</td>
</tr>
<tr>
<td>Supplier obligation funding more cost effective than public funding</td>
<td>✗</td>
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Impact of LIHC indicator on policy

- UK Government: optimise impact of policy on LIHC fuel poverty
  - ECO and WHD: GB wide - implications for Wales and Scotland
  - Contributed to new Strategy basing its target on energy efficiency alone
- Like 10% indicator, difficult to use on ground
- Politicians, civil servants, media:
  - Still focus on headcount
  - Little attention given to gap measure
- Downgraded fuel poverty as a priority for concern?
  - Why should Treasury provide more £ if little impact on numbers?
Review of Scottish fuel poverty definition

Fraser Stewart
Citizens Advice Scotland
Re-thinking the definition of fuel poverty

- Base on real experiences of households:
  - How do households use energy?
  - How does this vary by income and household type?
  - What are households’ actual fuel tariffs?
  - Evidence of rationing: heating, cooking, use of appliances?
- Improve understanding: temperature standards & heating regimes
  - Base on those required for healthy living
  - Will vary by household type and use of home
- Setting standards:
  - Heating requirements, once determined: absolute approach?
  - Other energy uses: socially determined approach - reflect changing social norms?
Measuring income

- Follow international standards for measuring income
  - Equivalise incomes to reflect needs vary by household size
  - Do not assume incomes below benefit levels are ‘misreported’
  - Use After housing Costs: people have little discretion over housing costs

- Income poverty = 60% of median income widely accepted

- Poor overlap between income poverty and 10% fuel poverty
  - How much is due to statistical artefact?
  - Failure to equivalise incomes or take account of housing costs
  - Bias towards single pensioners living in homes owned outright
‘Subjective’ and ‘objective’ fuel poverty

- Examples of subjective measures
  - Difficulty keeping homes warm in winter
  - Struggling to afford fuel bills
  - Foregoing other essential expenditure to pay fuel bills

- Social housing tenants
  - Subjective fuel poverty much higher than objective fuel poverty, Koessl, 2016; Fahmy, 2011

- Developing a new definition of fuel poverty in Scotland
  - Triangulate with subjective measures
  - Build consensus for any proposed changes
CAS research to inform review

- Our response to Fuel Poverty Strategic Working Group recommendation to look at the definition again
- Will complement, not substitute or compete with, the independent expert panel’s review of the 10% definition
- Deliberative research to better understand consumer views of issues related to the definition of fuel poverty in Scotland
- Will help inform our response to Scottish Government’s Fuel Poverty Strategy consultation and proposals in the forthcoming Warm Homes Bill
Topics we expect to cover

- Consumer views on the way housing costs are considered as part of the definition in Scotland
- Understanding public acceptability of indoor temperatures and heating regimes for different groups of consumers
- Identifying the income thresholds beyond which households should not be included in the definition
- Explore the problem of demand-led programmes and the use of proxies to successfully deliver a programme
- Anything else?
Timeline

- CFU finalising next year’s work plan now
- Host roundtable event to scope research issues – May 2017
- Research tendered and commissioned – June 2017
- Research complete – August 2017
- Independent expert panel due to report – Summer 2017
- CFU insight report published – September 2017
- Scottish Govt. consultation on new fuel poverty strategy published – Autumn 2017
Thank you and questions