

BEYOND ECO THE FUTURE OF FUEL POVERTY SUPPORT

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SUMMARY

Fuel poverty is a fact of life for 2.5 million households across England. It is also an increasing problem, with the number of households in fuel poverty rising by just under 5 per cent from 2014 to 2015. The average fuel poverty gap – the amount by which a fuel-poor household's energy bills exceed reasonable costs each year – was £353 in 2015. As a consequence, too many people are forced to make unacceptable choices between 'heating or eating'. At its worst, fuel poverty can contribute to premature winter deaths – around 10,000 deaths in 2016–2017 were related to cold homes.

Fuel poverty and its consequences are largely preventable through the right policy interventions, including action on energy prices, direct financial support to relevant households and energy efficiency schemes. However, it is through improving energy efficiency that the most cost-effective and long-lasting difference could be made in reducing fuel poverty.

To that end, the government has set out its ambition to upgrade as many fuel-poor homes in England 'as is reasonably practicable' to band C of the Energy Performance Certificate (EPC) by 2030, which is a certificate giving the energy efficiency rating of a property. The main policy aimed at achieving this target is the government's Energy Company Obligation (ECO), which is now the primary policy aimed at permanently alleviating fuel poverty in England.

However, despite some moderate progress in achieving its interim objectives, this report finds that ECO isn't working. As currently construed, ECO will not deliver the step-change in improving the energy efficiency of the properties of fuel-poor households that England needs. The Committee on Fuel Poverty estimates that only 11 per cent of fuel-poor homes will have reached band C by 2017. According to IPPR analysis based on current rates of the installation of energy efficiency measures, elevating all fuel-poor households to EPC band C will not be achieved until 2091 at the very earliest.

If the 2030 target is to be realised for all 2.5 million households in fuel poverty, the scheme will need to undergo substantial changes. This report outlines the issues with the current policy. It then sets out how a new area-based approach led by local authorities could help tackle energy affordability for fuel-poor consumers by delivering improvements in the energy efficiency of their homes.

KEY FINDINGS

Fuel poverty

- In total, 2.5 million households live in fuel poverty in England (as of 2015). This is an increase from 2.39 million households who were in fuel poverty in 2014.
- Of those households living in fuel poverty (as of 2015), 92 per cent live in homes with an energy efficiency rating of D or below, and 37 per cent live in homes with a rating of E or below.
- The average fuel poverty gap is £353. However, it is significantly worse for households with lower EPC ratings, with an average fuel poverty gap of £645 for properties with an E, F or G rating.
- For rural households, not only are the EPC ratings of their properties lower, their energy costs are also often much higher due to more expensive heating systems. They are often off the gas grid and as a result rely on fuels such as liquid petroleum gas (LPG).
- Tenants in fuel poverty or households in the private rented sector often do not feel empowered to act because permission to make energy efficiency improvements rests with their landlord.

A NEW APPROACH TO ENERGY EFFICIENCY

If the government is to deliver on its ambition of upgrading as many fuel-poor homes 'as is reasonably practicable' to the energy efficiency rating of band C by 2030 (DECC 2015), then it is clear that a new approach is needed beyond 2022.

We believe that the new approach should see ECO after 2022 transformed from a supplier-led scheme to a local authority-led, area-based scheme. This scheme should be supported by a national delivery body and funded through general taxation.

The main aspects of this new approach would be as follows:

- **An area-based approach delivered by local authorities.** Local councils would deliver a future energy efficiency scheme through an area-based approach, with particularly intensive engagement in hard-to-reach places such as rural areas.
- **A national delivery body to support local authorities.** A national body should be set up that has several key functions, including supporting local authorities in delivering the new area-based approach.
- **Alignment of the drivers for all participants to the overall objectives of the scheme.** The scheme should be structured so that the drivers for government, consumers, landlords and industry are better aligned to support the delivery of the overall objectives. From a government perspective, the policy should be focussed solely on addressing fuel poverty. And local authorities should share their projections

The Energy Company Obligation (ECO)

ECO fails to target fuel-poor consumers appropriately

- ECO is not available to all fuel-poor households. Around 20 per cent of households in fuel poverty (500,000 households) are not eligible for ECO because they do not receive, or are unaware of their eligibility for, benefits.
- The use of benefits data as a proxy to identify fuel-poor households is ineffective. As a consequence, it is estimated that only 30 per cent of funds are likely to be spent on fuel-poor consumers, equating to a leakage of £448 million (according to IPPR analysis) being spent on non-fuel-poor households every year.
- Despite accounting for around 20 per cent of fuel-poor properties in 2015, less than 1 per cent of rural households have received ECO measures.

ECO fails to provide the right incentives for those participating in the scheme **Consumers**

- Without a significant financial incentive, fuel-poor consumers tend to be the least likely to pursue an application for energy efficiency measures, due to perceived hassle, and a lack of confidence, awareness and knowledge.
- Tenants may be unable to seek upgrades because they require permission from a private landlord. Yet the private rented sector cost cap of £2,500, which limits the amount that landlords are required to invest to bring their properties up to the legal energy efficiency standard, is unlikely to be sufficient to provide meaningful upgrades to the large majority of harder-to-treat rented properties.

Industry (energy suppliers and installers)

- There is market pressure on suppliers to keep delivery costs as low as possible as well as pressure from government and suppliers to limit overall costs. This means that cheaper measures will often be preferred to meet obligations. The way in which funds are raised from energy bills and the political sensitivity regarding these levies also limit increases to the size of the scheme.
- The homes of fuel-poor households often require multiple, high-cost measures such as solid wall insulation to bring them up to required EPC standards. In addition, before measures are installed, homes are often in need of initial repairs.

Government

- From 2013 to 2015, the ECO scheme is estimated to have exceeded its lifetime carbon savings targets.
- However, it now conflates this objective with tackling fuel poverty. The already constrained financial resources are divided between both drivers, limiting their effectiveness.

ECO fails to provide an effective supply chain

- Applying for an ECO upgrade is complex and confusing. This is problematic for fuel-poor consumers who are least likely to apply for measures themselves.
- Energy suppliers, with some exceptions, often subcontract the installation of measures. This reduces transparency because the suppliers, not those installing the measures, are accountable to Ofgem, the energy regulator.

ECO relies on a regressive funding model and is unfair in how it distributes funding

- On-bill levies are highly regressive, meaning that fuel-poor households pay disproportionately more for energy than affluent consumers.
- This situation is even worse for rural communities. Rural consumers, despite paying over £70 million in bill levies over two years, only received measures worth £3.5 million.

ECO is not future-proofed

- ECO does not currently consider ways in which the heating systems in households may change in future. This could lead to efficiency upgrades being delivered, only to become defunct once new heating systems are installed.

of energy savings among clusters of households with DNOs and GDNs to encourage their investment in the scheme. For consumers, the scheme should include free energy advice to increase engagement and be supported by effective enforcement of minimum energy efficiency standards in the private rented sector and an increase in their cost cap to £5,000.

- **A more rigorous approach to targeting fuel-poor consumers.** Energy suppliers should share energy consumption data and billing information with local authorities to be matched with the EPC information and benefits data that local authorities hold, so that local authorities can better target fuel-poor households. Beyond 2022, we recommend that government should consider providing funding for a house-by-house assessment of the efficiency of properties, including questions on income.
- **Fairer and sufficient funding.** After 2022, a future energy efficiency scheme should be funded through general taxation and distributed to local authorities according to the number of fuel-poor homes in each area. This should be supported by additional investment to support staffing in local authorities for this new approach.
- **A future-proofed energy efficiency scheme.** In general, fuel-poor consumers should not be the target demographic for trialling innovations in energy technologies but any future scheme should prioritise energy efficiency measures that both meet the needs of fuel-poor consumers and are adaptable to all forms of heating system, such as wall and loft insulation.

The progressive policy think tank

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