

Fuel Poverty: The Hills Review and recent developments

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Introduction

- Energy prices are rocketing. Increasing energy bills are drawing more people into fuel poverty. With the winter approaching, and the energy price cap due to increase to £3,549 from 1 October 2022 (up from £1,971) more households will be at risk of fuel poverty.
- The End Fuel Poverty Coalition predicts that around 28 million people in 12 million households (42%) across the UK will face fuel poverty this winter. Figures based on a predicted further increase in the energy price cap to £5,387 and projections which assume 1% rise in energy prices leads to an additional 40,000 homes becoming fuel poor.
- Additional support announced includes: £400 to help with energy bills for all households, the most vulnerable to receive £1,200 (applied over 6 months from October), eligible households will receive a Winter Fuel Payment top-up (£300), £150 Council tax energy rebate (Bands A-D). But the scale of the help on offer is dwarfed by the scale of the problem.

Fuel poverty

- Definition of fuel poverty: “For the purposes of this Act, 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.” Warm Homes and Energy Conservation Act 2000
- UK Fuel Poverty Strategy 2001: *“a household is fuel poor if it would need to spend more than 10% of its income to achieve adequate energy services in the home”*
- Fuel poverty is a devolved matter – different measures, policies to tackle fuel poverty and different fuel poverty reduction targets exist across UK nations

The '10% measure' of fuel poverty

"a household is fuel poor if it would need to spend more than 10% of its income to achieve adequate energy services in the home"

If a household's fuel poverty ratio is greater than 10% (0.10):

Fuel poverty ratio = Required fuel costs (i.e. required usage x price)/Income

Required fuel costs

1. An energy use model is used to estimate required (not actual) usage. Survey data provides detailed information on features of each dwelling (size, construction material, energy efficiency installations, type of fuel, etc.) and the model uses set parameters for different energy uses (space heating, water heating, lights, appliances and cooking) and a defined heating regime (21°C in living room, 18°C in other rooms – for fixed number of hours each day)
2. Fuel costs are estimated based on type of fuel, payment method and average regional fuel prices

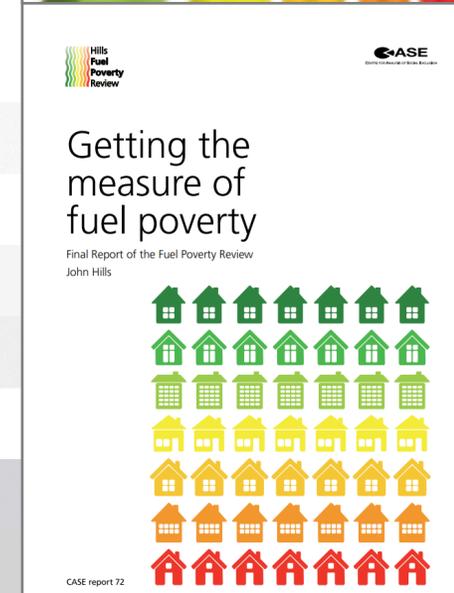
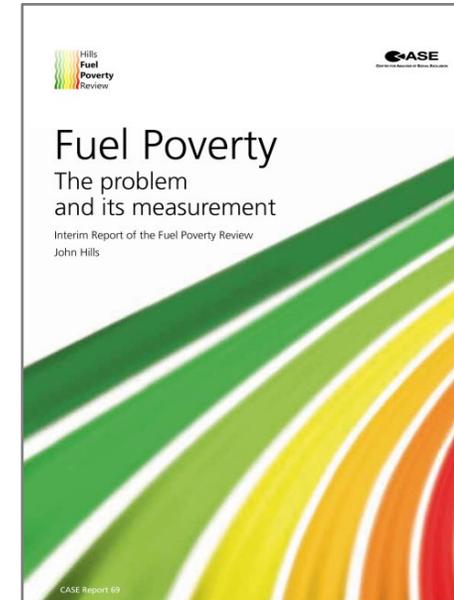
Hills Fuel Poverty Review: The Hills Review

Terms of reference:

- 1) To establish if fuel poverty is a distinct problem, and the detriment it causes;
- 2) Subject to the findings under 1), to develop possible formulations for a future definition.

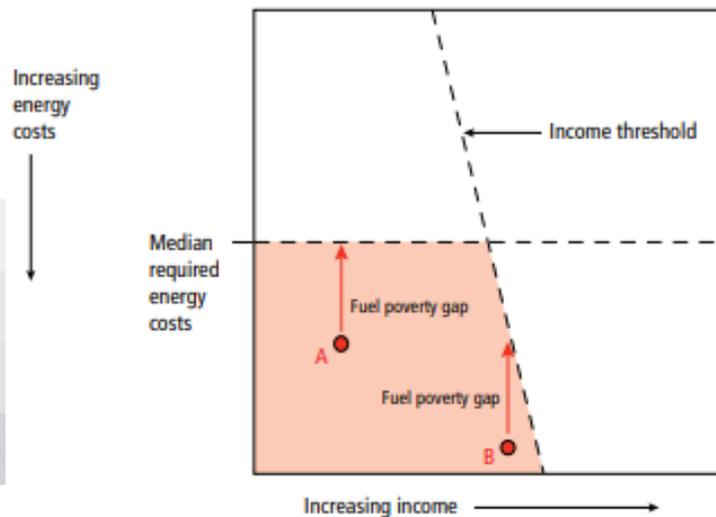
Findings:

- Fuel poverty is a distinct problem (poverty perspective and health and well-being perspective)
- “Significant flaws” identified with the ‘10% measure’:
 - Too sensitive to energy price changes and technicalities within its calculation (precise assumptions made for what are seen as adequate temperatures), giving misleading impression of trends and underestimating the impact of policy
 - Possible for households with quite high income to be classified as fuel poor. Plus concerns about income measure and income data quality (income measured before housing costs and not adjusted for household size/composition)



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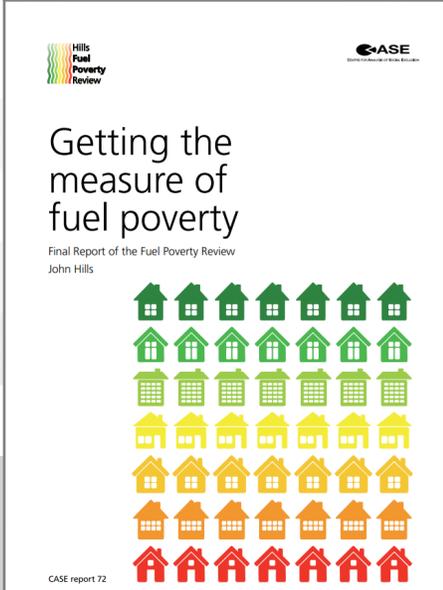
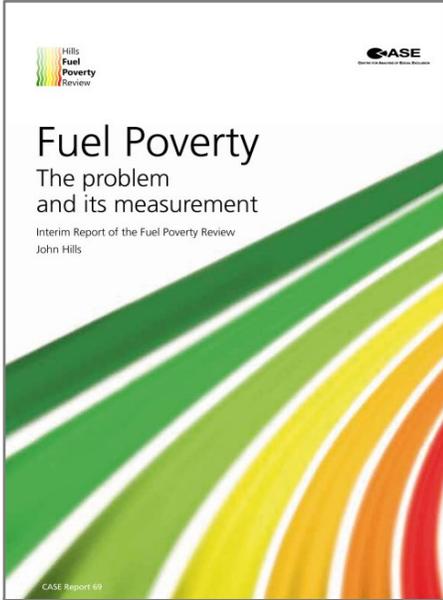
- Recommendations:
 - Change the measure of fuel poverty to a Low Income High Cost (LIHC) measure
 - Report fuel poverty gap as well as incidence
 - Changes to the way income is measured



Low Income High Cost measure of fuel poverty.

Households are considered fuel poor if:

- They have *required fuel costs* that are above the median level; and
- Were they to spend that amount they would be left with a residual income below the official poverty line (equivalised after housing cost income below the contemporaneous 60% median income).



Recent developments

2019 assessment of LIHC found:

- LIHC measure found to be very sensitive to changes in income and energy costs relative to averages (churn)
- Stable trends in estimated fuel poverty rates (10-12%) due to relative nature of the measure

Following a consultation, new official measure: Low Income Low Energy Efficiency (LILEE) introduced in England from 2020. A household is considered LILEE fuel poor if:

- They have a fuel poverty energy efficiency rating of Band D or below; and
- If they were to spend their modelled energy costs, they would be left with a residual income below the official poverty line.

Concerns with LILEE

1. Households are only considered to be at risk of fuel poverty if their home has a fuel poverty energy efficiency rating (FPEER) of Band D or below – i.e., **rising energy prices cannot lead to an increase in fuel poverty for people living in homes rated Bands A-C**
2. The measure requires a complex modelling exercise for the calculation of FPEER Bands (adapted Standard Assessment Procedure (SAP) rating) and to estimate cost of energy (Black Box)
3. Use of average regional fuel prices rather than actual tariffs
4. How policy initiatives, energy cost policies, enter the calculation – eg Warm Home Discount (£140 rebate off electricity bill) is both taken into account in the calculation of FPEER (artificially inflating the energy rating of some homes) *and* in the modelled energy costs