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Y Pwyllgor Newid Hinsawdd, Amgylchedd a Materion Gwledig

Climate Change, Environment and Rural Affairs Committee

Ymchwiliad i Dlodi Tanwydd | Inquiry into Fuel Poverty

FP 31

Ymateb gan : Christina Nascimento, Ymchwilydd Academaidd, Prifysgol
Caerdydd

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I am commenting in my capacity as an academic researcher and my responses specifically relate to the following two points for which views have been requested:

1. Why the Welsh Government failed to meet its statutory target of eradicating fuel poverty in Wales by 2018
2. How the Welsh Government's successor to the Fuel Poverty Strategy should differ from its 2010 strategy

Point 1: Why the Welsh Government failed to meet its statutory target of eradicating fuel poverty in Wales by 2018

1.1 As identified in the Fuel Poverty Strategy 2010 (Welsh Government 2010, p.7), three statutory targets were set out: to eradicate fuel poverty 1) amongst vulnerable households by 2010; 2) in social housing by 2012; and 3) in all households by 2018, as far as is reasonably practicable. Unfortunately, none of these targets were met and, according to the most recent estimates for Wales, around 12 per cent of households are still affected by fuel poverty.

1.2 As well as setting over-ambitious targets that did not appear to take account of the scale of the problem, one of the key reasons for why these milestones were not met was due to targeting issues. Targeting is important as

it relates to how well policies and schemes reach the fuel poor, often through eligibility criteria to ensure that assistance goes to those in genuine need. However, it has been noted that there is sometimes a mismatch between the eligibility criteria of schemes and fuel poverty itself.

1.3 For example, one of the most commonly used criteria to identify the fuel poor is whether a household is in receipt of a means-tested benefit. This stems from the evidence that has indicated an overlap between fuel poverty and income poverty (Boardman 1991; Palmer et al. 2008; Boardman 2010). However, although this may identify whether a household is eligible for assistance, it does not identify whether they are in fuel poverty (Boardman 2010, p.218). In analysis conducted by the Department of Business, Enterprise and Regulatory Reform (2008), it was found that under the 10 per cent definition using full income, only 58 per cent of the fuel poor were in receipt of a means-tested benefit. This increased to 71 per cent when using basic income. Similarly, under the Low Income High Costs indicator (LIHC), where the fuel poor are defined as having “*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” (Hills 2012, p.9), only 62 per cent were in receipt of a means-tested benefit (Hills 2012, p.83). This highlights a mismatch between the definition of fuel poverty and eligibility for assistance.

1.4 A further issue related to targeting is the definition of vulnerability. Within the strategy, households that are vulnerable are defined as those with a member aged 60 or over, those with dependent children under 16, or those with a long-term sick or disabled member (Welsh Government 2010, p.32). This is a very broad definition of vulnerability, which focuses on the characteristics of the household and does not consider any of the main drivers of fuel poverty (i.e. a low household income, an energy inefficient home, or high fuel costs). It appears to have been adopted based on the understanding that these groups have a higher risk of ill-health and excess winter mortality when exposed to a

cold home. However, there are two points here that require attention. Firstly, this definition captures a large number of households, making it exceptionally difficult to eradicate fuel poverty. This may be part of the reason that the first statutory target of eradicating fuel poverty amongst vulnerable households by 2010 was not met. Secondly, in focusing on this definition of vulnerability, it appears that the Strategy is more concerned with those who may suffer mortality or morbidity caused by prolonged exposure to low temperatures, but not necessarily with households who are least able to afford their fuel costs, as fuel poverty suggests. A similar argument is presented by Moore (2012).

Point 2: How the Welsh Government's successor to the Fuel Poverty Strategy should differ from its 2010 strategy

1.5 My views for this point touch on two areas: re-thinking the definition of fuel poverty and re-assessing the eligibility criteria for fuel poverty schemes. These are addressed in turn.

Re-thinking the definition of fuel poverty

1.6 It would be difficult, if not impossible, to formulate a plan to eradicate fuel poverty without prominent regard given to how fuel poverty is defined. This is, without a doubt, a difficult task – it needs to capture the crux of the issue and this may require some knowledge of how fuel poverty is experienced. However, the definition of fuel poverty is fundamental for formulating appropriate and efficient policy responses and directing resources to those most in need. Echoing the extensive literature, I believe that how fuel poverty is currently defined is itself a barrier to tackling fuel poverty.

1.7 The Fuel Poverty Strategy 2010 defines fuel poverty as “having to spend more than 10 per cent of income (including housing benefit) on all household fuel use to maintain a satisfactory heating regime” (Welsh Government 2010, p.7). However, there is a great need to consider other elements of fuel poverty,

beyond a cold home, to be able to tackle fuel poverty effectively. This includes incorporating all energy services, including energy for lighting, for heating water, for cooking, and for all appliances used in the home, as well as heating (Boardman 2010, p.23).

1.8 As debated elsewhere (see Hills (2012) and Liddell & colleagues (2012), for example), the use of the 10 per cent threshold is fundamentally flawed in capturing fuel poverty today. This is because it was developed using data from the 1988 Family Expenditure Survey, which, at the time, represented twice the median expenditure of the weekly budget spent on fuel, and 30 per cent of households with the lowest income were spending 10 per cent – twice the median amount (Boardman 2010), a level that had earlier been viewed as disproportionate (Isherwood and Hancock 1979). However, this threshold is now outdated and no longer reflects fuel poverty today. It is documented that there have been periods where the 10 per cent indicator has not represented a twice–median threshold and has grossly under–estimated the number of households in fuel poverty (Liddell et al. 2012). Furthermore, the 10 per cent indicator is overly–sensitive to fuel price rises (Hills 2012; Moore 2012) and it does not account for disparities in income, leading to wealthier households being classified as fuel poor.

1.9 In England, the LIHC has replaced the 10 per cent definition, acknowledging some of the aforementioned flaws. As stated above, the LIHC defines the fuel poor as having “*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” (Hills 2012, p.9). Although this has helped to re–focus the issue to its core meaning – in that it stresses disproportionate fuel costs – its limitations are well–documented. Unlike the 10 per cent definition, the LIHC does not capture high income households, but it does fail to capture some households who may be experiencing fuel poverty

(Moore 2012). According to Moore (2011), the LIHC poorly reflects energy efficiency improvements and fuel costs of low-income housing. In addition, it presents a level of fuel poverty that is stable over time, creating problems for monitoring policy and inevitably presents fuel poverty as a problem that cannot be eradicated (Middlemiss 2016).

2.0 In acknowledging that the LIHC also has some limitations, the Low Income Low Energy Efficiency indicator (LILEE) has been proposed in England. This metric classifies households as fuel poor if their income (after housing and energy costs) falls below the poverty line and they live in a property with an energy efficiency rating of Band D or lower. This presents a vast improvement from the 10 per cent definition, and some improvement from the LIHC, and it also better captures the core meaning of fuel poverty. However, it neglects the fact that some fuel poor households live in energy efficient dwellings but still have disproportionate fuel costs due to paying through a pre-payment meter, being on an inappropriate energy tariff, and feeling reluctant towards switching energy suppliers.

More specific eligibility criteria: beyond a cold home

2.1 In refining the fuel poverty definition so that it better reflects fuel poverty today, it would be valuable to explore what the definition means for the realities of fuel poor households. This is important as the experience of fuel poverty is complex and, at times, heterogeneous. This exploration could facilitate the fine-tuning of proxies or eligibility criteria so that fuel poor households are targeted more effectively.

2.2 As mentioned in paragraph 1.3, not all fuel poor households will be in receipt of a means-tested benefit and this misaligned targeting may lead to some fuel poor households being inadvertently excluded. To ensure that this is avoided, it is important to develop a range of criteria that accurately reflect the

causes and consequences of fuel poverty. This involves strong engagement with the literature, both academic and that produced by other organisations, such as those within the third sector. Through this, it is possible to construct wider – but more specific – eligibility criteria that reflect the experience of the fuel poor, such as the presence of energy debt, or having to forgo essential items to pay for fuel, or vice versa. The most dominant theme in this area is the ‘heat or eat’ trade-off (see Bhattacharya et al. (2003), Beatty et al. (2014), Snell et al. (2018), for example), although there is some literature that suggests that other essentials are also forgone (Anderson et al. 2010).

Final remarks

2.3 The views expressed herein are only some aspects of concern. I believe that moving away from the 10 per cent definition of fuel poverty is an essential step forward in tackling fuel poverty, but it requires the acknowledgement of the different ways in which fuel poverty can be experienced, from disproportionate fuel bills, to forgoing essentials, to cold homes. Adopting a definition of fuel poverty that better reflects what is known about fuel poverty today can help to create solutions that are effective and milestones that are achievable. I believe that retaining the 10 per cent definition would have a detrimental effect on tackling fuel poverty and that many of those in need of assistance would be overlooked.

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