

Hills Fuel Poverty Review
c/o Department of Energy and Climate Change
3 Whitehall Place
London, SW1A 2AW

6 June 2011

Dear Mr Baynham Hughes

Consumer Focus submission to the Fuel Poverty Review call for evidence

Consumer Focus welcomes the opportunity to provide evidence to the Hills Fuel Poverty Review. We note your request to provide new and emerging evidence where possible. We therefore commissioned three pieces of research which we consider provide fresh thinking on the nature of fuel poverty and the experiences of low income energy consumers:

1. [A briefing paper](#) on the definition and measurement of fuel poverty, which we commissioned from Dr Eldin Fahmy of the School for Policy Studies, University of Bristol
2. [A detailed research report](#) on the spending patterns and inflation experience of low-income households (with particular reference to energy), which we commissioned from the Institute for Fiscal Studies
3. 'Real lives' – a hard hitting account of the circumstances of low income energy consumers, much of it given in their own words, plus implications for policy. We plan to publish this report in the near future for submission to the review team

The first two research projects, included with this letter, focus on the first part of the call for evidence. In summary, this asks for evidence on the definition of fuel poverty, why it is distinct from poverty in general and the impact of fuel poverty. The briefing paper discusses the first two issues while the IFS report provides evidence on the third, specifically the impact of fuel price inflation on low income consumers since this has been the main driver of rising fuel poverty levels in recent years. The research reports do not go into detail on the second part of the call for evidence which is more concerned with policy.

Consumer Focus intends to address policy issues in more detail at the next stage of the fuel poverty review. At this point, we consider it important that discussion focuses on how fuel poverty is understood, with a view to achieving stakeholder consensus on this. The conflating of definitional issues with policy issues raises the risk that current policy concerns, such as 'what are the resources available (as defined by government)?' and 'how do we increase targeting efficiency?', unduly influence discussion on how fuel poverty is understood. This risks putting the 'cart before the horse'.

This is not to say that Consumer Focus is not concerned with policy. We have well defined policies on fuel poverty and we have made these clear on many occasions to Government. Recent examples include:

- [our briefing to MPs](#) on the fuel poverty implications of the current Energy Bill
- our [joint submission](#) to the All Party Fuel Poverty and Energy Efficiency Group/ Parliamentary Renewable and Sustainable Energy Group inquiry into social justice in the low carbon economy

- our briefing on how to make sure the [Green Deal is a fair deal](#)
- our work with the End Fuel Poverty Coalition on the [Fuel Poverty Charter](#). We are about to update the Charter, in collaboration with End Fuel Poverty Coalition supporters, to take account of recent policy developments

We therefore do not consider policy should be put ‘on hold’ for the duration of the review period. Urgent action is required now and many of us working in the fuel poverty field have a clear perspective on what is required.

However, Consumer Focus recognises that there is room for improvement with respect to the definition and measurement of fuel poverty. Eldin Fahmy’s report gives some clear ideas on how this might be done. We also consider Government and fuel companies have not given sufficient attention to the impact of energy price inflation on low income consumers. The IFS research shows how this has a major bearing not only on the ability of low income consumers to afford fuel and heat their homes but also on the resources they have left to spend on other essential items.

Consumer Focus considers there to be a wealth of useful material in both research reports and we hope the review team finds them of value. The following gives a very brief overview of key findings from the two projects:

The definition and measurement of fuel poverty

- A particular feature of fuel poverty is its relationship to the energy efficiency standards of the housing stock and the adequacy of heating systems and appliances. 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
- Our understanding of fuel poverty and its impact is considerably hampered by lack of data on internal temperatures, cold homes and households’ heating demand. The lack of regularly updated information on dangerously cold homes gives particular cause for concern
- The existing approach to the measurement of income within fuel poverty statistics is inconsistent with international best practice. It must take more account of variations in household size and composition to enable an objective assessment of fuel affordability and the requirements of larger households for non-fuel needs. It should also take into account the extra costs of disability in assessing the household income of disabled people
- An ideal fuel poverty indicator would allow for the robust measurement of the extent, severity and persistence over time of fuel poverty. It would also allow comparability with other survey data sources, including European data, and provide evidence to facilitate the effective targeting of resources
- It is unlikely that any one single indicator will address all these concerns. We therefore need a range of indicators to reflect overall policy objectives, such as improving the housing stock of low income consumers, promoting health and well-being, tackling income deprivation and promoting inclusion

The spending patterns and inflation experience of low income consumers

- Low-income households devote a greater share of their spending to fuel than higher-income households. In 2009, the ‘lowest’ income decile spent on average 7.7 per cent of their budget on fuel compared with 3.4 per cent for the highest income decile

- In recent years, inflation rates were particularly high for goods that make up a larger share of the budget of low-income households. In particular, domestic fuel prices rose very rapidly during 2006 and again in 2008: fuel price inflation reached a peak of almost 40 per cent in September 2008
- Lower-income households experienced higher inflation rates, on average, over the last decade than higher-income households
- There is evidence that lower-income households reduce their spending on fuel proportionally more than higher-income households when fuel prices increase. The median response among the lowest income quintile to a 10 per cent increase in fuel prices is a 6 per cent reduction in fuel consumption. The response among the highest income quintile is negligible, with the median household essentially holding its consumption constant
- The Government and others expect fuel prices to rise substantially over the medium term. The IFS research found that, other things being equal, this will result in higher-income households spending more on fuel in absolute terms (but not in proportionate terms) than lower-income households. However, it also found that lower-income households will heat their homes to a lesser extent. They are likely to ration their consumption even further and are thus more likely to suffer cold homes

I hope you find the two research reports of use to the review team's work. I will send you the third research report as soon as it is completed. Please do not hesitate to contact me if you would like to discuss the findings in more detail. Consumer Focus looks forward to working closely with the team in the next stage of its work.

Yours sincerely



William Baker
Principal Policy Advocate
07766 138975