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# Fuel Poverty



This report has been prepared for presentation to the National Assembly under the Government of Wales Act 2006.

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**Mae'r ddogfen hon hefyd ar gael yn Gymraeg.**

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# Introduction

- 1 Fuel poverty is a significant issue. There is evidence that living in a cold, damp home has negative impacts on people's mental and physical well-being as well as their longer-term life prospects. In the most extreme cases, fuel poverty can lead to premature death, particularly among vulnerable older people during the winter. The Welsh Government invests heavily in efforts to tackle fuel poverty and spends money dealing with some of the consequences.
- 2 The Auditor General decided to carry out a value for money examination of the Welsh Government's efforts to tackle fuel poverty. In February 2019, the Welsh Government announced plans to publish a new plan to tackle fuel poverty. The Welsh Government intends to launch a public consultation in October 2019 and to publish a new Fuel Poverty Plan in February 2020.
- 3 We therefore decided to carry out an initial high-level overview of the Welsh Government's existing ambitions for fuel poverty and progress to date in advance of that consultation. The aim of our work is to provide some insight into efforts since the publication of the Welsh Government's 2010 Fuel Poverty Strategy<sup>1</sup>. We also identify some key issues for the Welsh Government to consider as it finalises and implements its new plan.
- 4 At this stage, we have not covered all the wider contextual and historical factors that impact fuel poverty. We understand the Welsh Government intends to set out this context in its consultation. Also, given time constraints, we have not looked in depth at the value for money of the two main home energy efficiency schemes – 'Nest' and 'Arbed'. However, we are considering further work to look at these schemes soon. An Assembly Member has written to the Auditor General outlining specific concerns about the Arbed scheme but we have not looked at the issues raised as part of this report. [Appendix 1](#) sets out our audit methods.

1 Welsh Government, **Fuel Poverty Strategy 2010**, July 2010

# Key findings

- 5 The Welsh Government set targets around eradicating fuel poverty: among all vulnerable groups by 2010; in social housing by 2012; and in the general population by 2018. These targets were ambitious given that tackling fuel poverty is complex, with the causes and responses spanning organisational boundaries.
- 6 Including some EU funds, the Welsh Government has spent £252 million on its Warm Homes programme to reduce fuel poverty, primarily by improving home energy efficiency but also by providing advice to people on issues such as maximising income and saving energy. [Appendices 2](#) and [3](#) set out more detail about expenditure on the Nest and Arbed schemes and their outputs. Over recent years, the area-based Arbed scheme has struggled to spend its allocated budget.
- 7 As part of its efforts to develop a more holistic approach to tackling poverty, the Welsh Government has sought to work with other bodies and coordinate its own departments to address the wider causes of fuel poverty, including wider investment in programmes that can support its fuel poverty ambitions. These wider programmes include investment in work to achieve the Welsh Housing Quality Standard across social housing. However, there are some inherent tensions between different policy aims. In particular, there are tensions between goals of eradicating carbon emissions from domestic housing and prioritising efforts and funding on fuel poor households who tend to use less energy and may indeed need to increase their energy use in order not to live in a cold, unhealthy home.
- 8 The Welsh Government recognises that it has more to do to engage with local councils, in light of the pressures they face following broader spending cuts and changes in their own legal duties related to energy efficiency and fuel poverty. We also found that there is a gap between the Welsh Government's positive view of its approach to engaging with third sector organisations and the more critical views of those in the third sector.

- 9 While estimated rates of fuel poverty have fallen significantly, the Welsh Government has not met its goals of eradicating fuel poverty and the impact of its efforts is unclear. As at 2018:
- A total of 155,000 households (12% of all households) were estimated to be in fuel poverty
  - 130,000 vulnerable households (11% of vulnerable households) were estimated to be in fuel poverty
  - 21,000 households in social housing (9% of all households in social housing) were estimated to be in fuel poverty
  - 32,000 households (2% of all households) were estimated to be in severe fuel poverty, 19,000 of which were vulnerable households
- 10 The Welsh Government's actions, in particular the investment in energy efficiency, seem to have helped to reduce the levels of estimated fuel poverty. The data on the Warm Homes programme show significant improvements in the energy efficiency of the houses that have benefited from the programme. However, they do not show whether the people in those houses have been lifted out of fuel poverty. Although the Welsh Government is testing some broadened eligibility criteria, some fuel poor households are not eligible for support from Nest and not living in an area covered by Arbed. The impacts of the Welsh Government's wider efforts to coordinate activity are harder to measure.

## Recommendations

- 11 We think that there are some key issues around strategic direction, coordination and funding of schemes for the Welsh Government to consider as it consults on and finalises a new Fuel Poverty plan.

### Recommendations

#### Strategic direction

- R1 The Welsh Government should reflect on the purpose of the target related to eradicating fuel poverty and whether that purpose could be better served by setting an ambition or goal that is more closely aligned to the Welsh Government's sphere of control and influence.
- R2 The Welsh Government should clearly articulate the lessons learnt from the failure to meet the targets set in 2010 and set out how those lessons have been applied in setting any new ambitions and the mechanisms for achieving them.
- R3 The Welsh Government should consider developing a more nuanced suite of measures for the impact of its programmes and efforts to tackle fuel poverty, in particular:
- a. Developing measures for its Warm Homes programme that are based on working out how beneficiaries are better off in ways that matter to them alongside improvements to the energy efficiency of the home.
  - b. Working with its partners to develop measures that enable a collective understanding of whether efforts to coordinate activity across organisational and sectoral boundaries are having the intended impact.

## Recommendations

### Coordination and integration

- R4 The Welsh Government should explore and articulate a long-term financial and carbon analysis of the costs, benefits and trade-offs of prioritising fuel poor households as part of its wider plans for decarbonising homes.
- R5 The Welsh Government, working with partners, should more clearly articulate how fuel poverty schemes should link up locally to other work to tackle the underlying causes that led individuals and communities to be vulnerable to experiencing fuel poverty.
- R6 The Welsh Government should reflect, in light of the views expressed to us, on its approach to involving and engaging with stakeholders, including exploring whether any formal mechanisms for regular involvement and engagement with stakeholders need to be put in place.

### Funding for energy efficiency schemes

- R7 In setting future budgets for the Warm Homes programme, the Welsh Government should take a broad view, in line with the ways of working under the Well-being of Future Generations Act, on how fuel poverty schemes could: prevent future costs in other service areas; and contribute to wider policy goals, including the 80% reduction in carbon from housing by 2050.
- R8 The Welsh Government should clearly set out whether, and if so how, it will support fuel poor households who are not eligible for Nest and do not live in an area covered by Arbed.
- R9 The Welsh Government should clearly set out how it will support those in severe fuel poverty, as they are potentially less likely to be engaged with services.
- R10 The Welsh Government should fully explore the reasons behind the underspend in Arbed and if there are fundamental issues with the area-based approach which mean this situation is likely to continue, the Welsh Government should look at options for changing the funding balance between Nest and Arbed.

## Part 1

The Welsh Government's aim around eradicating fuel poverty was ambitious given the inherent complexities and uncertainties



## The Welsh Government set targets around eradicating fuel poverty among all vulnerable groups by 2010, in social housing by 2012 and in the general population by 2018

- 1.1 The Warm Homes and Energy Conservation Act 2000 came into force in Wales in April 2002. It required the Welsh Government to adopt a Fuel Poverty Commitment by April 2003, which it did. The April 2003 commitment set out statutory targets for eradicating fuel poverty as far as is reasonably practical. In its 2010 Fuel Poverty Strategy, the Welsh Government recommitted to the three targets of eradicating fuel poverty:
    - Among vulnerable households by 2010
    - In social housing by 2012
    - Completely by 2018
  - 1.2 In accordance with the Warm Homes and Energy Conservation Act 2000, the Welsh Government defines fuel poverty as 'living on a lower income in a home which cannot be kept warm at reasonable cost'. It has adopted the following two measures to assess rates of fuel poverty:
    - If a household needs to spend more than 10% of its income to keep warm<sup>2</sup>, it is in fuel poverty.
    - If a household needs to spend more than 20% of its income, it is in severe fuel poverty.
  - 1.3 The way that the Welsh Government calculates how many households are in fuel poverty is complicated. It works out how much it costs to heat a home adequately based on survey estimates rather than how much individual households actually spend or how warm households really are. This is because what households actually spend does not reflect what they would need to spend to adequately heat the home. A sample survey such as the Welsh Housing Conditions Survey is used as it is not possible to collect this information for every single household in Wales. **Box 1** explains how the Welsh Government calculates fuel poverty.
- 2 The Welsh Government defined warm in its Fuel Poverty Strategy 2010 as 21°C in the living room and 18°C in other rooms for 9 hours a day (or 16 hours a day at weekends). For older or unwell people, the temperature should be 23°C in living rooms and 18°C in other rooms for most of the day. The different minimum home temperature thresholds for older or unwell people was subsequently removed following a systematic review of evidence in 2014.

## Box 1: how the Welsh Government calculates levels of fuel poverty

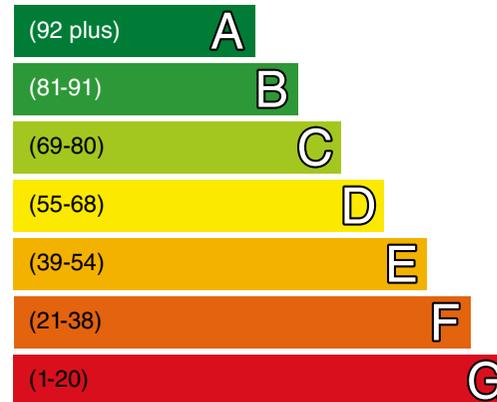
The Welsh Government has commissioned the Building Research Establishment (BRE) to produce an overall number of estimated households in fuel poverty in Wales. There are three main components used in the calculations of fuel poverty. These are:

- Annual household income
- Household fuel prices
- Annual required household energy use

The Welsh Housing Conditions Survey looks at a representative sample of houses and classifies their condition. It uses the Standard Assessment Procedure (SAP) which is the UK government's recommended system for measuring the energy efficiency rating of residential dwellings using a score of 1-120, with 1 indicating the less energy efficient and 120 being the highest. SAP scores are banded to give a rating A-G, A being the highest.

This information is used to work out how much energy it would take to keep each home warm, based on the size and condition and also takes into account the likely heating pattern based on data about working and non-working households. This notional figure on energy use is then combined with the latest energy prices and national data on household incomes to calculate the overall levels of fuel poverty.

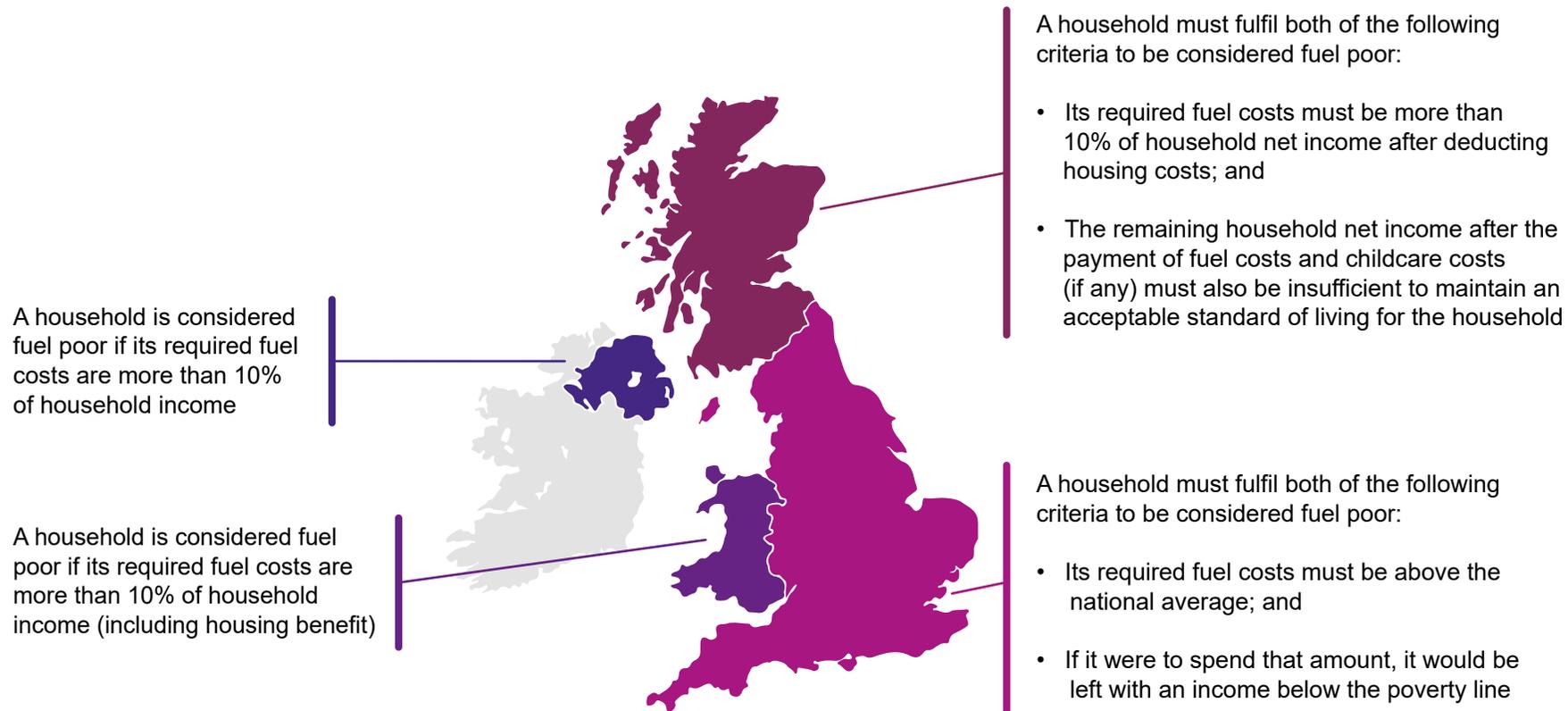
Very energy efficient - lower running costs



Not energy efficient - higher running costs

1.4 Previously all parts of the UK shared the same definition of fuel poverty as that used by the Welsh Government, but England and more recently Scotland have amended their definitions (Figure 1).

Figure 1: different definitions of fuel poverty used across the United Kingdom



## Tackling fuel poverty is complex with the causes and responses spanning organisational boundaries

- 1.5 There are three main causes of fuel poverty which span organisational and sectoral boundaries (**Box 2**). Also, the effects of fuel poverty, such as poorer physical and mental health, educational attainment and economic well-being<sup>3</sup> are cross-cutting. The powers to tackle the main causes are only partially devolved. The Welsh Government needs to work with lots of different UK, all-Wales and local organisations to deliver its goals. **Figure 2** sets out the complex organisational landscape that the Welsh Government is working within. **Appendix 4** provides a glossary of the terms used. Given the complex underlying causes and limited degree of control, for example over energy prices, we think that the targets the Welsh Government set to eradicate fuel poverty were highly ambitious.

3 Public Health Wales, Community Housing Cymru and Building Research Establishment, **Making a Difference Housing and Health: A Case for Investment**, 2019

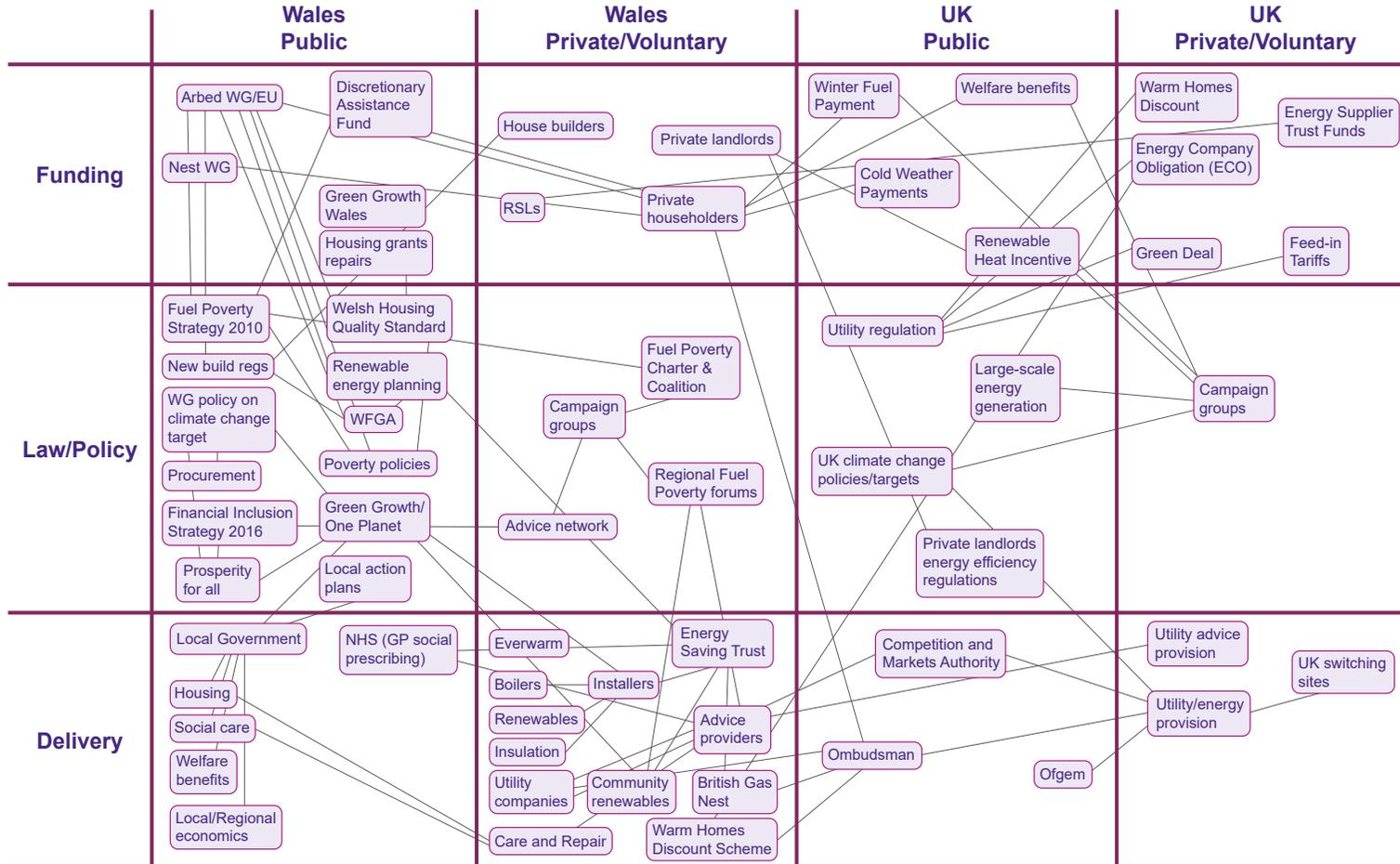
## Box 2: the main causes of fuel poverty

**Low household income:** If a household has a low income, it can be difficult to find the money to pay for the energy they need to keep the home warm enough, particularly during long cold spells. At its most extreme, people may have to decide whether to prioritise heating their home over other household costs like food or clothing. The Welsh Government has some powers over income such as growing the economy and creating better paid jobs and increasing employability. It does not have control over welfare benefits, which are set by the UK government, although it does have a role in supporting advice services that help ensure people take up benefits to which they are entitled.

**Energy prices:** Energy prices also affect the overall number of households in fuel poverty. For households that already have a low income and are struggling to pay their energy bills, an increase can tip them into fuel poverty. Wales has a high proportion of rural households. Almost a third of rural households use heating oil as their main heating fuel which is generally more expensive than mains gas. Also, many householders are on the most expensive pre-payment meters and some households do not switch providers and are therefore paying more than they need to. The Welsh Government has limited influence over energy prices, which are regulated by Ofgem and are influenced by global economic and political events. The Welsh Government can support services that encourage people to make good choices about their energy providers and methods.

**Energy efficiency:** The overall energy efficiency of a house can also influence the number of households in fuel poverty. For example, homes that are poorly insulated, or have inefficient heating systems will need to use more energy to keep the temperature up, which increases their overall fuel costs. The Welsh Government has most direct influence on this issue as it can retrofit people's homes with new energy efficiency measures and regulate new buildings. It can also work with private sector utility companies to ensure Welsh households benefit from the fuel poverty and energy efficiency schemes that energy providers are required to offer.

Figure 2: links between some of the key organisations, plans and schemes involved in tackling fuel poverty



Note: This figure is intended to illustrate the complex range of organisations, policies and programmes that touch upon fuel poverty. It is based on our high-level research and we are aware that there are likely to be other elements that we have not captured. Appendix 4 provides a glossary of the terms used.

Source: Wales Audit Office

- 1.6 As well as being complex because of the number of different interconnected programmes and organisations, there are also some inherent tensions and challenges, as well as opportunities, in coherently integrating fuel poverty with all other areas of policy – particularly tackling poverty and tackling climate change through carbon reduction (Box 3).

### Box 3: opportunities and challenges of integrating fuel poverty with climate change and tackling poverty

#### Carbon reduction

There are clear links between the Welsh Government's aspirations on fuel poverty and wider plans for climate change, particularly the ambition of reducing the carbon emissions of the housing stock by 80% by 2050. A recent independent report<sup>4</sup> for the Welsh Government has called for a major increase in investment in retrofitting existing housing stock to improve energy efficiency. At present, the main schemes to improve domestic energy efficiency in Wales are targeted towards fuel poor households.

While this has a clear social justice rationale, it is not necessarily the most cost-effective approach to carbon reduction. There may be greater scope to reduce emissions from more energy wasting affluent homes. There are also some potential conflicts, especially where reducing the impact of fuel poverty may require some households to use more energy by keeping their homes at a higher temperature. In addition, the independent report's recommendation that all fuel poor households should be brought up to a Band A energy efficiency rating would require significant changes to the measures provided and amount spent on each household through the Warm Homes programme. This would require either a significant increase in investment or a reduction in the number of households helped.

There are also inherent tensions between the Welsh Government's ambitions for renewable energy and reducing the amount of fossil fuels. In purely monetary terms, it is widely accepted that the cheapest way to heat a home is through natural gas. The Welsh Government, and UK government, face a significant challenge in making the energy supply more carbon efficient whilst also avoiding price rises that push more people into fuel poverty.

#### Tackling poverty

There are clear links between fuel poverty and wider efforts to reduce poverty in the round. For many people in fuel poverty, their energy costs are just one part of a wider set of issues they face in their lives. The opportunity is therefore to provide a comprehensive and holistic response, of which tackling fuel bills is a part, that helps people to improve their circumstances. The challenge is to avoid a situation where government intervention changes the material circumstances of their house but leaves the broader problems that led them to being in fuel poverty unresolved.

4 Decarbonisation of Homes in Wales Advisory Group, **Better Homes, Better Wales, Better World Decarbonising existing homes in Wales**, July 2019

1.7 The Welsh Government's 2010 strategy set out the key actions the Welsh Government and its partners would take (Box 4). Reflecting on the complex nature of fuel poverty, the 2010 strategy aims to tackle fuel poverty through a combination of specific programmes that are firmly within the Welsh Government's control, mostly aimed at improving home energy efficiency, and coordinating wider efforts related to the causes and consequences of fuel poverty. The strategy also set out how work to eradicate fuel poverty also contributes to other Welsh Government objectives, such as creating green jobs and businesses and meeting targets to reduce greenhouse gas emissions.

#### Box 4: key features of Welsh Government's actions to tackle fuel poverty

To maximise the effectiveness of specific programmes targeted at fuel poverty and coordinate wider efforts to address the underlying causes of fuel poverty, the 2010 strategy committed the Welsh Government to:

- Promoting the coordination and joining up of support, not just of different providers who are helping to tackle fuel poverty, but also by finding ways to enable other services and programmes to support action that will assist in alleviating fuel poverty
- Ensure the development of initiatives to tackle fuel poverty are coordinated with actions to tackle poverty across Welsh Government departments
- Ensuring that any new services are developed in partnership with, and complement, existing services provided by trusted local agencies, health and social services, local authorities and third sector organisations
- Providing high quality, well-coordinated advice and support services to ensure that all householders in Wales can access help to reduce their fuel bills, maximise their income, improve the energy performance of their homes and reduce their risk of becoming fuel poor
- Providing a demand led All-Wales fuel poverty programme complemented by area-based fuel poverty programmes
- Ensuring that Welsh Government support and advice is inclusive and takes people's needs into account (for example, ensure that advice meets accessibility standards and that programmes are delivered with cultural sensitivities in mind)
- Ensuring that Welsh Government funded energy efficiency measures provided through both demand led and area based programmes are targeted at those householders most in need and living in the most energy inefficient homes
- Reviewing the eligibility criteria as and when new data on the severity and distribution of fuel poverty in Wales is available and to work with stakeholders to ensure programmes continue to be effective in identifying and targeting support to householders most in need
- Ensuring that Welsh Government programmes are developed in a way that maximises the funding available from UK government, energy supplier programmes and other potential sources of funding

## Part 2

The Welsh Government's investment and efforts seem to have helped to reduce the levels of estimated fuel poverty but it has not met any of its targets



## The Welsh Government has spent £252 million on its Warm Homes programme to reduce fuel poverty, primarily by improving home energy efficiency, alongside wider investment to improve social housing

- 2.1 The Welsh Government's Warm Homes programme comprises the Arbed scheme, introduced in 2009, and the Nest scheme, introduced in 2011 (Figure 3). These schemes fund home energy efficiency measures for low income households living in private sector housing.
- 2.2 As of 31 March 2019, the Welsh Government had spent £251.8 million, including EU Structural Funds, on the Warm Homes programme. In addition, these schemes drew in funding from the UK government's ECO scheme and its predecessors (Box 5). As of 31 March 2019, and including other sources, a total of £321.6 million had been spent on the Warm Homes programme.
- 2.3 Over recent years, the Arbed scheme has struggled to spend its allocation. Between 2016 and 2018, the transitional 'Local Authority Partnership Scheme' spent less than anticipated. In 2018-19, the first year of Arbed 3, it had only spent £1.2 million, a significant underspend of £7.8 million against a £9.0 million budget. The Welsh Government told us that this reflected delays in implementing phase 3 due to a legal challenge to its contract award. The Welsh Government now expects activity to significantly increase and it remains committed to meeting the plan for the Warm Homes programme announced by the then Cabinet Secretary in February 2017<sup>5</sup>. Appendix 2 and Appendix 3 set out more detail on the spending and outputs of the Arbed and Nest schemes as reported to us by the Welsh Government.

5 The Welsh Government committed to investing £104 million, between 2017 and 2021, in its Warm Homes programme to improve up to a further 25,000 homes, including 6,000 homes through Arbed.

### Box 5: UK government Energy Company Obligation scheme

Introduced in 2013, the UK government's Energy Company Obligation (ECO) scheme requires the larger energy suppliers to provide energy efficiency measures to domestic households across the UK. It forms part of the UK government's policies for reducing greenhouse gas emissions. ECO replaced the Carbon Emissions Reduction Target (CERT) scheme and the Community Energy Savings Programme (CESP) that previously required energy suppliers to fund energy efficiency measures.

Figure 3: the Welsh Government's Warm Homes programme – Nest and Arbed

Scheme	Key features	Reported spending
Nest	The Welsh Government introduced Nest in 2011, replacing the former Home Energy Efficiency Scheme (HEES). Nest is a demand led scheme which offers free home energy improvements to energy inefficient households receiving means tested benefits. Most improvements include a new boiler or central heating system but also include loft insulation or cavity wall insulation. Some improvements may include newer technologies like air source heat pumps and external wall insulation. It also provides advice to all householders in Wales on saving energy, money management, fuel tariffs and benefit entitlement. Since 2011, it has been managed by British Gas with some services delivered by the Energy Saving Trust <sup>6</sup> . The current five-year contract started in April 2018, with an option to extend for up to two years.	Total expenditure £158.7 million, comprising: <ul style="list-style-type: none"> <li>• Welsh Government: £143.2 million</li> <li>• ECO and its predecessor schemes: £15.5 million</li> </ul>
Arbed	The Welsh Government introduced Arbed in 2009. Arbed is an area-based scheme. It offers funding for local authorities to install energy efficiency measures, such as external wall cladding and new central heating systems in deprived areas. To access Arbed, householders must be living in an eligible area. So far, the Welsh Government has delivered two phases of the Arbed funding. Phase 1 ran from 2009 to 2012. Phase 2 ran from 2012 to 2015. Between Phases 2 and 3 (2016 – 2018) the Welsh Government ran its Arbed Local Authority Partnership scheme, which offered local authorities grant funding to carry out improvements to properties. Phase three is currently underway and is due to end in 2021, with an option to extend for up to two years.	Total expenditure £162.9 million, comprising: <ul style="list-style-type: none"> <li>• Welsh Government: £108.6 million (including £33 million EU Structural Funds)</li> <li>• ECO and its predecessor schemes: £54.3 million</li> </ul>

6 The Energy Saving Trust provides the marketing, customer engagement and telephone advice service for the scheme. They act as a sub-contractor to British Gas.

- 2.4 The Welsh Government has also invested significant funding in improving the energy efficiency of social housing as part of work on the Welsh Housing Quality Standard (WHQS). The Welsh Government introduced the WHQS in 2002 and it sets out a range of standards that all social housing in Wales must achieve. One of the standards requires homes to be adequately heated, fuel efficient and well insulated, achieving a minimum SAP rating of 65, which would put the house in Band D (**Box 1**).
- 2.5 Initially the Welsh Government target was to achieve the WHQS by 2012. In 2012, we reported that this would not be met for some considerable time<sup>7</sup>. The Welsh Government subsequently set a revised deadline of December 2020 for all social landlords in Wales to achieve the WHQS. Since 2004, the Welsh Government has spent £1.6 billion on activities that support achievement of the WHQS<sup>8</sup> of which energy efficiency is only one element.
- 2.6 As well as retrospectively upgrading existing housing stock, the Welsh Government is seeking to prevent future fuel poverty by ensuring newly built and substantially renovated houses meet specific energy efficiency standards. These standards are set out in building regulations<sup>9</sup>. The Welsh Government's 2019 low carbon delivery plan<sup>10</sup> sets out its overarching plan to reduce carbon emissions in the domestic housing sector, including amending the building regulations and funding innovative approaches to new housing. The plan set out an intention to consult on proposals for new regulations during the summer of 2019. However, due to competing priorities there has been some slippage against this timetable. The Welsh Government now intends to publish the revised regulations for consultation towards the end of 2019.

7 Auditor General for Wales, **Progress in delivering the Welsh Housing Quality Standard**, January 2012

8 This has been funded through the Major Repairs Allowance (MRA) and Dowry payments whose purpose is to ensure that social housing is safe and secure, adequately heated and in a good state of repair.

9 Welsh Government, Building regulations 2010, **Approved document L1A: New dwellings**, July 2014

10 Welsh Government, **Prosperity for All: A Low Carbon Wales**, March 2019

## The Welsh Government has sought to work with other bodies and coordinate its own departments to develop a collective approach to the wider causes of fuel poverty

- 2.7 A range of Welsh Government departments are involved in designing policies, plans and programmes that are relevant to fuel poverty. Some of the key areas are: broader work on tackling poverty in general; the broader environment and carbon reduction programmes, including reducing carbon in the housing sector; and advice provision, which covers income maximisation. Staff from different parts of the Welsh Government who came to our workshop said that joint working within the Welsh Government had improved over recent years.
- 2.8 Councils in Wales also have a role in helping to tackle fuel poverty. They provide or fund many of the local services that tackle the underlying causes of fuel poverty as well as having responsibilities for the wider social, economic and cultural well-being of their areas. Around the time the Welsh Government launched its 2010 strategy all councils were engaged with fuel poverty work and had developed affordable warmth action plans. Councils' work on fuel poverty was driven in part by legal<sup>11</sup> and policy<sup>12</sup> frameworks that are no longer in place. At the outset councils played a key role in the Arbed scheme. The Welsh Government told us that councils are now struggling to find the capacity to engage with Arbed, which explains some of the underspend between 2016 and 2018 (paragraph 2.3). For Arbed 3, the Welsh Government changed the contract to reduce the reliance on councils' input.
- 2.9 Welsh Government officials told us that they have regular discussions with counterparts in the UK and other devolved governments. These discussions tend to take place on a quarterly basis. Engagement with the regulator Ofgem is on a more ad hoc basis. We have not examined the effectiveness of the Welsh Government's relationships with the regulator, the UK and other devolved governments.

11 Previously the 1995 Home Energy Conservation Act (HECA) placed several domestic energy efficiency responsibilities upon local authorities. The Act was repealed in Wales in 2011.

12 Previously, the Welsh Government and all 22 councils entered into policy agreements which contained a series of improvement targets, including a specified percentage target for improving domestic energy efficiency. Under the policy agreement framework, local authorities committed to meeting the service improvement targets in return for a non-hypothecated Performance Incentive Grant (which amounted to a formula share of £30 million per annum).

2.10 The Welsh Government has sought to engage with stakeholders. Many stakeholders have themselves organised into the Fuel Poverty Coalition to present a common voice and platform for engaging with Welsh Government. The Welsh Government also engages with local organisations through the north and south Wales Fuel Poverty Forums, which are run by National Energy Action Cymru. Prior to 2011, there was a Ministerial Advisory Group on Fuel Poverty made up of a range of organisations from the public, private and third sectors. The Welsh Government chose to dissolve this group in 2011. It intended that the Minister would instead get advice from the Tackling Poverty External Advisory Group, which had a representative on fuel poverty. The Tackling Poverty External Advisory Group was itself dissolved in 2016, with engagement to be picked up as part of wider work under the Welsh Government's national strategy Prosperity for All. Recently, the Welsh Government has sought to engage key stakeholders in developing its new fuel poverty plan and held a round table event, which the Minister attended, with an open invite to make suggestions for priorities and changes to the approach.

2.11 We found that there is a gap between the favourable views the Welsh Government holds of its engagement with third sector stakeholders and the perceptions of some in the third sector. We held a workshop with Welsh Government officials, at which they told us that the Welsh Government works well with external organisations. We also held a workshop with representatives of third sector organisations at which they expressed some concerns about the Welsh Government's approach to engagement. They told us that:

- while welcoming the opportunity to make early comments on the new plan, the absence of formal ongoing arrangements means engagement peaks around certain projects and policy initiatives and then wanes, and much of the onus to initiate and maintain engagement falls upon the third sector organisations;
- the Welsh Government does not involve them at a sufficiently early stage in its policy and project development, missing opportunities to make use of the evidence and intelligence held by relevant third sector organisations.

Whilst the estimated number of households in fuel poverty has fallen from 332,000 in 2008 to 155,000 in 2018, the Welsh Government has not met any of the targets and the impact of its efforts on reducing fuel poverty is uncertain

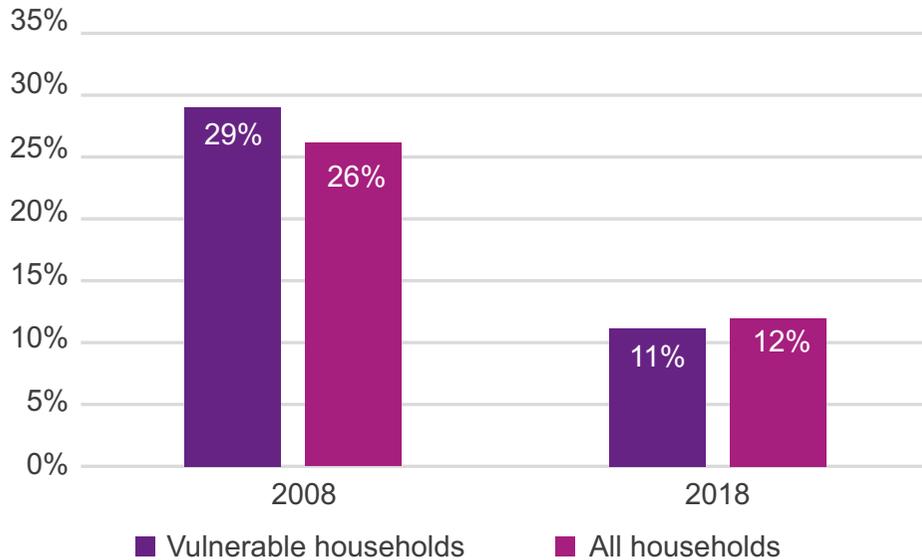
The Welsh Government did not meet its targets to eradicate fuel poverty but levels of fuel poverty have fallen significantly in Wales

- 2.12 Welsh Government statistics (Figure 4) show that overall there has been a 14 percentage point reduction in the number of households living in fuel poverty between 2008 and 2018. In 2008, 332,000 households were estimated to be in fuel poverty which equated to just over a quarter of households in Wales (26%). By 2018, this figure was estimated to have fallen to 155,000 households, equating to 12% of overall households in Wales. Despite an overall reduction of 50% the Welsh Government did not meet its target of eradicating fuel poverty by 2018.
- 2.13 Over the same time period (2008 – 2018), there was also an 18 percentage point reduction in the number of vulnerable households<sup>13</sup> estimated to be living in fuel poverty. In 2008, 285,000 vulnerable households were estimated to be in fuel poverty which equated to 29% of all vulnerable households. By 2018 this figure was estimated to have fallen to 130,000 vulnerable households, or 11% of all vulnerable households (Figure 4). Despite the overall reductions of over 50% the Welsh Government did not meet its target of eradicating fuel poverty in all vulnerable households by 2010. Nor did it meet the target to eradicate fuel poverty in social housing by 2012, although the number of fuel poor households in social housing fell from 59,000 (26%) in 2008 to 21,000 (9%) in 2018<sup>14</sup>.

13 A vulnerable household is defined as those with a person aged 60 years or over, a child or young person under the age of 16 years and/or a person who is disabled or has a long-term limiting condition.

14 In 2012 and 2016 the Welsh Government produced fuel poverty estimates. However, those estimates used modelled data in part because the housing quality data had not been updated. The 2012 and 2016 figures are not comparable with the 2008 and 2018 estimates. None of the datasets show the Welsh Government meeting its targets around the time they were due to be met.

Figure 4: percentage of Welsh households in fuel poverty 2008 and 2018



Source: Welsh Government

2.14 There has also been a fall in the number of households estimated to be in severe fuel poverty. As of 2018, 2% of households (32,000) are estimated to be living in severe fuel poverty. This is down from 5% of households (60,000) in 2008. The data shows that 2% of vulnerable households (19,000) were estimated to be living in severe fuel poverty in 2018. This compares with 5% of vulnerable households (52,000) estimated to be living in severe fuel poverty in 2008. The 2018 figures show that 59% of households in severe fuel poverty were classed as vulnerable<sup>15</sup>. This compares to the position of overall fuel poverty where 84% of fuel poor households are classed as vulnerable.

<sup>15</sup> The sample sizes for severe fuel poverty in vulnerable households are small and the Welsh Government does not consider these estimates to be as robust as those for fuel poverty.

## Whilst Welsh Government schemes have improved energy efficiency of domestic households, their overall impact on reducing fuel poverty is unclear

2.15 It is hard to be certain about the precise impact of the two schemes – Arbed and Nest – that make up the Warm Homes programme. Both schemes have been subject to evaluations. Both have undoubtedly led to improvements in the energy efficiency of the houses. [Appendices 2 and 3](#) set out the increase in SAP ratings for both schemes, although, the Welsh Government was unable to provide SAP data showing the impacts of its £24 million investment in the Arbed Local Authority Partnership phase between 2015 and 2018. In theory, the significant reported improvements in energy efficiency should make those households less likely to be in fuel poverty. However, neither scheme routinely checks whether people were in fuel poverty before or after the intervention. The Nest and Arbed programmes record and publicly report energy efficiency improvements that are made to each property, but there are several factors that make it difficult to measure their impact on fuel poverty. These include:

- it is difficult to collect accurate information about household income and historic energy usage for all households
- household circumstances including household income can change frequently
- energy prices can change frequently
- residents may use improvements to keep their homes warmer for the same cost, rather than reducing their outgoings on fuel
- widespread monitoring over several years can be costly and intrusive for the households involved.

- 2.16 Both Nest and Arbed face challenges in targeting fuel poor households. A 2015 Welsh Government evaluation<sup>16</sup> of Nest found that around 22% of beneficiaries it surveyed were not actually in fuel poverty. On the other hand, it found that 'whilst the scheme has reached some households in need, there is a risk that others equally in need, have been unable to access the support they need as they failed to meet all of the qualifying criteria'. Similarly, many fuel poor households will not be in areas covered by Arbed. Since 2017, the Welsh Government has been testing expanded eligibility criteria to include individuals with respiratory and circulatory conditions. Take up was quite limited, with 77 referrals in 2018-19 but only two of those were eligible. More recently, it has changed the referral mechanism for the expanded eligibility criteria and reduced the lower income threshold which the Welsh Government told us has increased the referral rate.
- 2.17 We looked at patterns of spending on Arbed and Nest at local authority level and whether it correlated with levels of fuel poverty. Our analysis was inconclusive. The data suggests there was not a strong correlation between the take up of Nest and Arbed at local authority level and data on levels of fuel poverty. However, that picture could be explained by factors for which there is no detailed data. For example, it may be that households in some areas were covered before the start of Arbed and Nest, including from utility company funded interventions under ECO and its predecessor schemes.
- 2.18 Up until the end of March 2019 the Nest scheme had provided advice to a total of 129,506 households. The 2015 evaluation of Nest surveyed users and found over half (59%) of those surveyed who had received advice from Nest reported they had acted on it, including taking up energy efficiency measures funded through the Warm Homes programme or from utility companies. The evaluation also identified several behaviour changes that customers reported as a result of Nest advice. The most frequently cited behaviour changes were: reducing the temperature and length of time heating was on and switching off appliances or lights when not using them.

16 Welsh Government (Government Social Research), **Evaluation of the Nest energy efficiency scheme**, March 2015

2.19 The impact of the investment in improving social housing on levels of fuel poverty is also unclear. The most recent data shows that at the end of March 2018, 90% of social housing in Wales was WHQS compliant<sup>17</sup>. However, this includes 'acceptable fails'<sup>18</sup>. If these properties are excluded the figure falls to 63%. At the end of March 2018, 97% of properties met the overall energy efficiency element of the standard, including acceptable fails. The figure excluding acceptable fails was 89%. The Welsh Government reports that overall, as a result of the WHQS, the average energy rating in social housing has risen from SAP rating 58 in 2008 to 68 in 2017-18<sup>19</sup>. As with the Warm Homes programme, improvements to home energy efficiency should have made those households less likely to be in fuel poverty. However, the Welsh Government has not measured whether those households were in fuel poverty before and whether they were still in fuel poverty after the intervention.

### The impacts of the Welsh Government's wider efforts to coordinate activity are harder to measure

2.20 The wider work to coordinate policies, schemes and activities is harder, though not impossible, to measure in terms of impacts. The Welsh Government has clearly sought to join up fuel poverty at the level of plans and strategies over the past decade. There is reference to fuel poverty in key plans, including Prosperity for All, the 2015 Child Poverty Strategy, the 2016 Financial Inclusion Strategy for Wales, and the Welsh Government's 2019 Low Carbon Delivery Plan. However, these tend to be descriptions of the Warm Homes programme, rather than setting out how different schemes and activity will be coordinated in practice. Also, the various cross-references do not directly address the inherent tensions between fuel poverty and other policy objectives (Box 3).

2.21 One indicator of impact of wider efforts to engage with utility providers is the amount of activity by the energy providers in Wales. The rate of ECO measures per 1,000 households between January 2013 and March 2019 in Wales was 76.5 compared with 70.2 in England and 107.8 in Scotland. These overall rates however represent the total number of interventions not the overall financial value of ECO measures. Additionally, the level of eligible households for ECO measures may differ across the UK.

17 Welsh Government, **Welsh Housing Quality Standard (WHQS) as at 31 March 2018 - Revised**, June 2019

18 The concept of acceptable fails was introduced by the Welsh Government in 2008 which relates to circumstances where it is either impossible or not cost effective for a property to be brought up to the WHQS or where a tenant chooses not to have the work done.

19 Welsh Government, **Welsh Housing Conditions Survey 2017-18: Headline Report**, December 2018

# Appendices



# Appendix 1: Audit methods

In carrying out this work, we used the following methods:

1. Document review: we reviewed a range of documents including:
  - a Welsh Government plans and strategies, including the 2010 Fuel Poverty Strategy, associated plans such as the Fuel Poverty Evidence Plan, the National Energy Efficiency and Savings Plan, the Financial Inclusion Strategy; Better Homes, Better Wales, Better World: Decarbonising existing homes in Wales and Prosperity for All: A Low Carbon Wales.
  - b Internal Welsh Government documents relating to the procurement and management of its Warm Homes programme and the development of its new fuel poverty plan. For example, internal audit review of Nest; a recent quality assurance review of the Warm Homes programme and minutes and papers from the internal board managing the Warm Homes programme.
  - c Welsh Government commissioned research and publications relating to domestic energy efficiency. For example, the 2015 Welsh Government Knowledge and Analytical Services' evaluation of Nest and evaluations of Arbed and statistical data from the Living in Wales Property Survey 2008 and the Welsh Housing Conditions Survey 2017-18.
  - d Research and policy documents by external organisations, including the National Energy Action Fuel Poverty Monitor reports.
2. Workshops: We ran two workshops to gather views, particularly on progress to date and collaboration:
  - a Workshop with officials from different parts of the Welsh Government with an interest in fuel poverty, including housing, debt advice and energy policy.
  - b Workshop with stakeholders, organised through the Fuel Poverty Coalition<sup>20</sup>.

<sup>20</sup> The Fuel Poverty Coalition is led by National Energy Action Cymru and Citizens Advice and supported by a steering group, including Age Cymru, Care & Repair Cymru, Community Housing Cymru, Children in Wales, Friends of the Earth Cymru, Oxfam Cymru, Shelter Cymru, Disability Wales, Cynnal Cymru North Wales Energy Advice Centre and Warm Wales.

3. Interviews: We carried out a small number of semi-structured interviews with the Welsh Government officials responsible for fuel poverty.
4. Data analysis: We analysed several different kinds of data:
  - a Spend by the Welsh Government and others on the Warm Homes programme and the distribution of spend across Welsh local authorities.
  - b Welsh Government spend to meet the Welsh Housing Quality Standard, of which improving domestic energy efficiency is an element.
  - c The rate of ECO measures per 1,000 households in Wales, Scotland and England.
  - d Secondary data on the rates of fuel poverty across time.
  - e Scheme outputs, such as numbers of boilers installed, advice provided and the impact of schemes on home energy efficiency.

## Appendix 2: Nest scheme activity 2011-2019

Up until the end of March 2019 the Nest scheme had provided advice to a total of 129,506 households and energy efficiency improvements to 33,733 properties since the scheme started. The scheme has delivered other benefits such as the creation of local jobs by providing opportunities for small and medium heat engineering and insulation companies to be employed on the scheme, as well as delivering skills training through its apprenticeship programmes. For 2017-18 and 2018-19, the scheme reports it created 12 and 11 jobs and 32 and 20 apprenticeships respectively. Comparable data for previous years is not available.

Figure A1: overall spend and improvements through Nest, 2011-2019<sup>1</sup>

Year	Number of households receiving energy efficiency improvements	Total Welsh Government spend (£ millions)	Total ECO spend (£ millions) <sup>2</sup>	Total overall spend (£ millions)
2011-12	3,647	14.8	0.2	15.0
2012-13	4,900	19.8	No figures	19.8
2013-14	4,981	12.8	3.9	16.7
2014-15	4,266	15.4	1.3	16.7
2015-16	6,125	24.0	4.4	28.4
2016-17	5,540	21.6	3.9	25.5
2017-18	4,457	19.1	1.6	20.7
2018-19	3,817	15.7	0.2	15.9
<b>Total</b>	<b>37,733</b>	<b>143.2</b>	<b>15.5</b>	<b>158.7</b>

### Notes:

1. We have not audited for accuracy the figures in this table, which were supplied by the Welsh Government. Some are not consistent with those set out in the Nest annual reports. During our audit work, the Welsh Government has queried its own figures and is having further discussion with the contractor, British Gas. We will consider the financial reporting as part of any future work looking at Nest and Arbed.
2. This includes ECO's predecessor schemes CERT and CESP.

Source: Welsh Government

Figure A2: types of energy efficiency measures installed through Nest, 2011-2019

Type of measures installed	2011-12 (%)	2012-13 (%)	2013-14 (%)	2014-15 (%)	2015-16 (%)	2016-17 (%)	2017-18 (%)	2018-19 (%)
Central heating installation	82.5	84	85	87.4	97	95.3	92	93.8
Standard insulation	15.2	14	14	11.1	2.9	4.6	8	6.2
Enhanced insulation	1.7	1	1	1.5	0.1	0.1		
Solar	0.5	1						

Source: Welsh Government

Figure A3: overall average energy efficiency improvements reported through the Nest scheme, 2011-2019

Year	Average increase in SAP points per household
2011-12	48
2012-13	40
2013-14	37
2014-15	38
2015-16	33
2016-17	35
2017-18	37
2018-19	41

Notes:

1. The Standard Assessment Procedure (SAP) is the UK government's recommended system for measuring the energy efficiency rating of residential dwellings using a score of 1-120, with 1 indicating the less energy efficient and 120 being the highest. For the purposes of Energy Performance Certificates (EPCs), SAP scores are banded to give a rating A-G, A being the highest.
2. The figures on energy efficiency improvements reported to the Welsh Government by British Gas have not been independently verified.

Source: Welsh Government

## Appendix 3: Arbed scheme activity 2010-2019

Figure A4: numbers of properties improved and total and average spend per property through Arbed, 2010 to 2019<sup>1</sup>

Time period	Number of households receiving energy efficiency measures	Total Welsh Government spend (£ millions)	Total ECO spend (£ millions)	Total EU funding (£ millions)	Overall spend (£ millions)
Arbed 1: 2010 – 2012	7,585	36.2	31.8	No EU funding	68.0
Arbed 2: 2012 – 2015	6,535	12.2	20.2	33.0	65.4
Arbed Local Authority Partnership: 2015 – 2018	3,061	26.0	2.3	No EU funding	28.3 <sup>2</sup>
Arbed 3: 2018 – March 2019 <sup>3</sup>	145	1.2			1.2
<b>Total</b>	<b>17,326</b>	<b>75.6</b>	<b>54.3</b>	<b>33</b>	<b>162.9</b>

### Notes:

1. We have not audited for accuracy the figures in this table. During our work, the Arbed data that we have reported has been confirmed to us by the Welsh Government. In some cases, these figures are different to those reported previously by the Welsh Government.
2. This figure does not include the 2017-18 figures for additional ECO funding accessed as part of the programme. When this is available, the total figure will increase.
3. These figures are for the first year of a three-year programme.

Source: Welsh Government

Figure A5: reported before and after SAP ratings for Arbed phases 1 and 2

Programme	SAP rating before	SAP rating after <sup>2</sup>	Average increase in SAP points
Arbed 1	60	69	9
Arbed 2	51	61	10
Arbed Local Authority Partnership phase: 2015 – 2018 <sup>1</sup>	-	-	-
Arbed 3 <sup>3</sup>	51	64	13

Notes:

1. The Welsh Government has been unable to provide us with data on before and after SAP ratings for the Arbed Local Authority Partnership phase (2015 – 2018).
2. The figures on energy efficiency improvements reported by the scheme managers to the evaluators have not been independently verified.
3. The figures for Arbed 3 reflect the available data for the period from November 2018 to July 2019. For that period, the scheme manager (Arbed am Byth) provided the Welsh Government with before and after SAP ratings for 879 properties.

Sources: Cardiff University, **Arbed 1 Scheme Evaluation of the Warm Wales Programme**, August 2012; Ricardo Energy and Environment, **Welsh Government Warm Homes Arbed EU, Final Report**, August 2017

## Appendix 4: Glossary of terms used in Figure 2

Figure A6: glossary of terms used in Figure 2

Term	Description
Arbed WG/EU	Area-based energy efficiency improvement scheme. Funded through Welsh Government (including EU Structural Funds) and ECO.
Campaign groups	There are several organisations that campaign across the UK and within individual countries and regions to change legislation, policy and practice around fuel poverty and other associated issues, including environmental and social aspects of fuel poverty.
Care and Repair	Independent charitable organisation which aims to improve older people's housing.
Cold Weather Payment	A payment made to people claiming certain benefits if the average temperature is recorded or forecast to be, zero degrees or below for 7 consecutive days. Awarded for the period between 1 November and 31 March.
Community renewables	A group of people that generate, own and manage their own renewable energy.
Competition and Markets Authority	An independent non-ministerial department of the UK government. Works to ensure customers get a good deal when buying products and services, and businesses operate within the law.
Discretionary Assistance Fund	Provides urgent grants to people which do not need to be paid back. In Wales it is managed by the Welsh Government.
Energy Company Obligation	Requires the larger energy suppliers to provide energy efficiency measures to domestic households across the UK.

Term	Description
Energy Saving Trust	Independent, not for profit organisation funded by the government and private sector. Promotes energy efficiency, energy conservation and the sustainable use of energy.
Energy Supplier Trust Funds	Provide vulnerable people experiencing hardship and who are struggling to pay their bills with financial assistance.
Everwarm	Installer of energy savings measures under the current Arbed programme.
Feed-in Tariffs	A payment made to households or businesses generating their own electricity through the use of methods that do not contribute to the depletion of natural resources, proportional to the amount of power generated.
Financial Inclusion Strategy (2016)	The Welsh Government's strategy to improve understanding of affordable credit and financial services and information.
Fuel Poverty Charter	Charter calling for fuel poverty in Wales to be eradicated.
Fuel Poverty Coalition	Led by National Energy Action Cymru and Citizens Advice, supported by a steering group made up of a range of organisations working to take forward the fuel poverty agenda in Wales.
Fuel Poverty Strategy 2010	The Welsh Government's current strategy for tackling fuel poverty and the causes of it.
Green Deal	Privately funded loans to homeowners, landlords and tenants to encourage them to make energy-saving improvements. The loan is paid back through the energy bill.
Green Growth Wales	Offers Welsh Government funding for Welsh energy efficiency projects. Available to public sector organisations, the funding is repayable and interest free.

Term	Description
Green Growth/One Planet	The Welsh Government's vision of the world in which people enjoy happy, healthy lives within their fair share of the earth's resources, leaving space for wildlife and wilderness.
House builders	Building contractors that specialise in building homes.
Housing grants/repairs	Grants given by the Welsh Government to local authorities and registered social landlords.
Large-scale energy generation	Includes existing technology and infrastructure used to provide energy in the UK. Current facilities use predominantly fossil fuel based technologies, such as coal and gas.
National Advice Network	Advises how to help people get good quality social welfare advice.
Nest WG	Demand led energy efficiency improvement scheme. Funded primarily through Welsh Government investment but also draws in some ECO funding.
New build regulations	The Welsh Government is seeking to prevent future fuel poverty by ensuring newly built and substantially renovated houses meet specific energy efficiency standards. These standards are set out in building regulations.
NHS (GP social prescribing)	The referring of patients by health professionals to support in the community, in order to improve their health and wellbeing.
Ofgem	Regulatory body supervising the operation of the gas and electricity industry.

Term	Description
Ombudsman	Organisation that independently handles disputes between consumers and energy and gas suppliers.
Private householders	Property owners.
Private landlords	Property owners who choose to rent out their property.
Private landlords energy efficiency regulations	Regulations that specifies the minimum level of energy efficiency standard for private rented properties.
Prosperity for all	The Welsh Government's national strategy setting out its key commitments places them in a long-term context and sets out how this fits with the wider Welsh public service to lay foundations towards achieving prosperity for all.
Regional Fuel Poverty Forums	Hosted by National Energy Action Cymru to showcase innovation, examine policy and promote dialogue and discussion regarding fuel poverty.
Registered Social Landlords (RSLs)	Independent, not for profit organisations that provide homes for people in need of housing.
Renewable Heat Incentive	Scheme that provides financial support to owners of renewable heating systems.
Renewables	Energy generated from renewable resources.
UK switching sites	Online price comparison sites that allow customers to compare energy tariffs and supplier deals.
Utility companies	Companies which supply utilities, such as gas and electricity.

Term	Description
Warm Homes Discount Scheme	Provides extra help to people struggling to pay their energy bills.
Welfare benefits	Assistance provided by the UK government to people who meet certain criteria, such as being unemployed on low incomes or having an illness or disability.
Welsh Government policy on climate change target	The Welsh Government has a target to reduce greenhouse gas emissions by 95% by 2050.
Welsh Housing Quality Standard	Developed by the Welsh Government to provide a common target standard for the condition of all social housing in Wales.
WFGA	Well-being of Future Generations (Wales) Act 2015.
Winter Fuel Payment	A one-off, tax free payment from the UK government made during the winter to help with heating costs to people who qualify on age and residency grounds.

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