



Poverty and Social Exclusion in the UK

Policy Response Series No. 7

Getting the measure of fuel poverty: Response to the Hills Fuel Poverty Review Consultation

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Poverty and Social Exclusion in the UK

Overview

The Poverty and Social Exclusion in the UK Project is funded by the Economic, Science and Research Council (ESRC). The Project is a collaboration between the University of Bristol, University of Glasgow, Heriot Watt University, Open University, Queen's University (Belfast), University of York, the National Centre for Social Research and the Northern Ireland Statistics and Research Agency. The project commenced in April 2010 and will run for three-and-a-half years.

The primary purpose is to advance the 'state of the art' of the theory and practice of poverty and social exclusion measurement. In order to improve current measurement methodologies, the research will develop and repeat the 1999 Poverty and Social Exclusion Survey. This research will produce information of immediate and direct interest to policy makers, academics and the general public. It will provide a rigorous and detailed independent assessment on progress towards the UK Government's target of eradicating child poverty.

Objectives

This research has three main objectives:

- To improve the measurement of poverty, deprivation, social exclusion and standard of living
- To assess changes in poverty and social exclusion in the UK
- To conduct policy-relevant analyses of poverty and social exclusion

For more information and other papers in this series, visit www.poverty.ac.uk

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Summary

Whilst change is needed, many of the limitations of the existing measurement approach could be addressed through modifications to the existing FP indicator. This would be consistent with the 2000 WHECA approach and would therefore not require primary legislation. However, the provision and analysis of up-to-date data on contemporary energy usage behaviours, domestic dwelling temperatures, and subjective perceptions of thermal adequacy will be needed to implement such an approach. This would provide a more objective basis for estimating what constitutes 'reasonable cost' on the basis of the ratio of income to required fuel costs for low income households.

At the very least, it should be acknowledged that no single FP indicator is likely to provide sufficiently robust and reliable results on its own and it is therefore important that surveys used to monitor the prevalence and depth of fuel poverty be adapted to enable results to be triangulated by incorporating a wider range of measures than is proposed in the Hills review.

Important technical changes to FP measurement are proposed by Hills. Some of these could be easily implemented using existing data sources and are widely accepted by most stakeholders. In particular, proposals to measure incomes for fuel poverty purposes after housing costs and adjusted for household size and composition are very much welcomed.

However, the Hills proposals also call for substantial additional data collection in order to better understand contemporary energy use behaviours and dwelling temperatures. We welcome these recommendations not least because the availability of such data could provide a more objective basis for a modified version of the existing measure by determining 'unreasonable costs' on the basis of observed energy usage, dwelling temperatures and subjective measures of thermal adequacy (rather than the essentially arbitrary current threshold). At the very least, such an 'absolute' measurement approach would provide important additional information on FP prevalence and depth.

General recommendations

1. The Government should change its approach to fuel poverty measurement away from the current '10 per cent' ratio indicator.

RESPONSE

It is accepted that the existing FP indicator is not fit for purpose in its current form. However as discussed above, many of the limitations of the existing definition could be addressed without the more radical changes proposed by the Hills review. These include: a) restricting the scope of FP measurement to low income households; b) providing a more rigorous basis for determining an absolute cost threshold on the basis of better data on energy usage, dwelling temperatures and subjective thermal adequacy, and; c) improving the treatment of incomes and energy tariffs. These modifications would also be more consistent with the spirit of the 2000 WHCEA than the existing FP indicator by focusing on the situation of low income households.

2. The Government should adopt a new indicator of the extent of fuel poverty under which 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". The Government should count the number of individuals in this position as well as the number of households they live in.

RESPONSE

The proposed approach represents an advance on existing measures to the extent that it excludes from the definition of fuel poverty households who experience high fuel costs (e.g. as a result of under-occupancy or energy inefficient housing) but are nevertheless able to afford adequate warmth without experiencing significant social and material hardship. This appears to be more consistent with the spirit of the 2000 WHCEA than the current FP indicator.

However, in doing so the proposed LIHC measurement framework will result in low income households living in energy efficient dwellings being classified as not fuel poor. Although in principle this could also be viewed as consistent with 2000 WHECA approach, the proposed definition of 'reasonable cost' remains highly contentious. Whilst the number of individuals and households affected is comparatively small (i.e. households

with very low incomes living in SAP-improved accommodation), it would seem counterintuitive to exclude from the definition of fuel poverty people living in energy efficient homes who are nevertheless unable to heat their homes without hardship due to low income.

Indeed, it might be reasonably be argued that this group should be a priority for FP interventions focused on income maximisation. By excluding this group from the proposed FP indicator the measure will give insufficient weight to low income as a driver of fuel poverty. By basing required energy costs on the population median for different household types, the proposed LIHC headcount measure underestimates the importance of fuel *affordability* for low income households living in thermally efficient properties.

In addition, the proposal to base required costs on a population median threshold represents a high threshold of need for low income households living in smaller dwellings who will only be categorized as fuel poor where their required costs exceed the national median. Since low income households are also more likely to live in smaller properties this will underestimate the extent of fuel poverty for this group.

The decision to equalise household energy costs on the basis of household type alone misrepresents social variations in households' capacity to convert income into heat since it does not take account of the effects of differences in household size and dwelling size. As a result the proposed measurement approach is likely again to underestimate the extent of fuel poverty amongst smaller households living on low incomes. Given projected demographic trends this is a problem which is likely to worsen over time.

These considerations emphasise the importance of plurality of measures in order to estimate the numbers of people and households living in cold homes. A focus on the social and health consequences of living in cold homes has always been central to the case for tackling fuel poverty and supplementary measures will be therefore be needed in order to adequately measure this problem.

Moreover, whilst it is accepted that the existing official measure may be over-sensitive to price variations as a result of the existing 10% absolute cost threshold, an approach resulting in FP headcount measures which are largely invariant over time appears inappropriate in the context of projected rises in domestic energy prices in the short to medium term. This problem is especially serious given that required energy costs comprise a larger proportion of household budgets for low income households than for others.

3. The Government should adopt a new indicator of the depth of fuel poverty as represented by the average and aggregate 'fuel poverty gap', defined as the amounts by which the assessed energy needs of fuel poor households exceed the threshold for reasonable costs.

RESPONSE

As acknowledged within the Hills Review, the proposed headline count is likely to prove highly insensitive to domestic energy price variations. In the absence of the data needed to develop an empirically validated absolute measure, we welcome the proposed FP gap indicator (though a broadly comparable FP gap measure could be estimated on the basis of the ratio of income to fuel spending). The proposed distinction between headcount indicators and measures of FP depth is especially important in better understanding the effectiveness of FP interventions and in mitigating potential perverse policy incentives associated with the proposed FP headcount measure. On its own, the adoption of a relative costs FP headcount measure may mean that it will be difficult in future to mobilise a political consensus to tackle fuel poverty if the costs associated with such interventions do not produce associated demonstrable reductions in its incidence.

4. The Government should measure incomes for fuel poverty purposes after housing costs and adjusted for household size and composition. The threshold should be set at 60 per cent of median income plus calculated household energy requirements.

RESPONSE

The proposals to base the indicator on AHC incomes, and to bring measurement in line with existing best practice (e.g. HBAI), are very welcome and long overdue. They will provide a much more accurate assessment of the income needed by households of different types and sizes in order to achieve comparable living standards.

We also strongly endorse the Hills recommendation to exclude 'extra costs benefits' such as DLA from estimates of household income used in the calculation of FP indicators. These costs are intended to reflect the additional costs faced by disabled people in meeting their needs, and excluding disability-related benefits in the calculation of income therefore provide a more accurate assessment of the incomes of disabled people.

Technical recommendations

1. The Government should compare data on actual consumption patterns in homes that are due to become available in future with modelled spending requirements for the same households in order to identify the kinds of household that are at greatest risk of living at low temperatures and to provide information that would allow refinement of the way in which energy needs are currently modelled.

2. The Government should reinstate a component to its surveys that allows an up-to-date assessment of contemporary behaviour in terms of the temperatures of people's homes. The information this provides should be used in the development of the fuel poverty measurement methodology.

RESPONSE

Better measurement within existing datasets is urgently required in order to provide up-to-date assessment of both contemporary energy usage behavior and actual dwelling temperatures. Such data may provide a more secure empirical basis for the absolute measurement of required energy costs and would provide an alternative framework for better understanding the impacts of energy price changes on FP headcounts. We very much welcome the Hills recommendations here and emphasise the importance of timely release of such data to the wider research community.

In addition, the regular collection of data on subjective thermal adequacy and energy affordability is essential in order to validate the proposed LIHC indicators and any alternative measures based on objective assessment of the relationship between household incomes, energy usage, and dwelling temperatures.

3. Based on data available in future, the Government should examine the case for a more direct assessment of the tariffs actually paid by low-income households within the fuel poverty measurement methodology.

Proposals to base required costs on costs on the actual tariffs paid by people at risk of fuel poverty seem appropriate. We welcome the Hills recommendation since this will provide a more realistic assessment of the required energy costs which low income households need to meet in order to avoid fuel poverty.