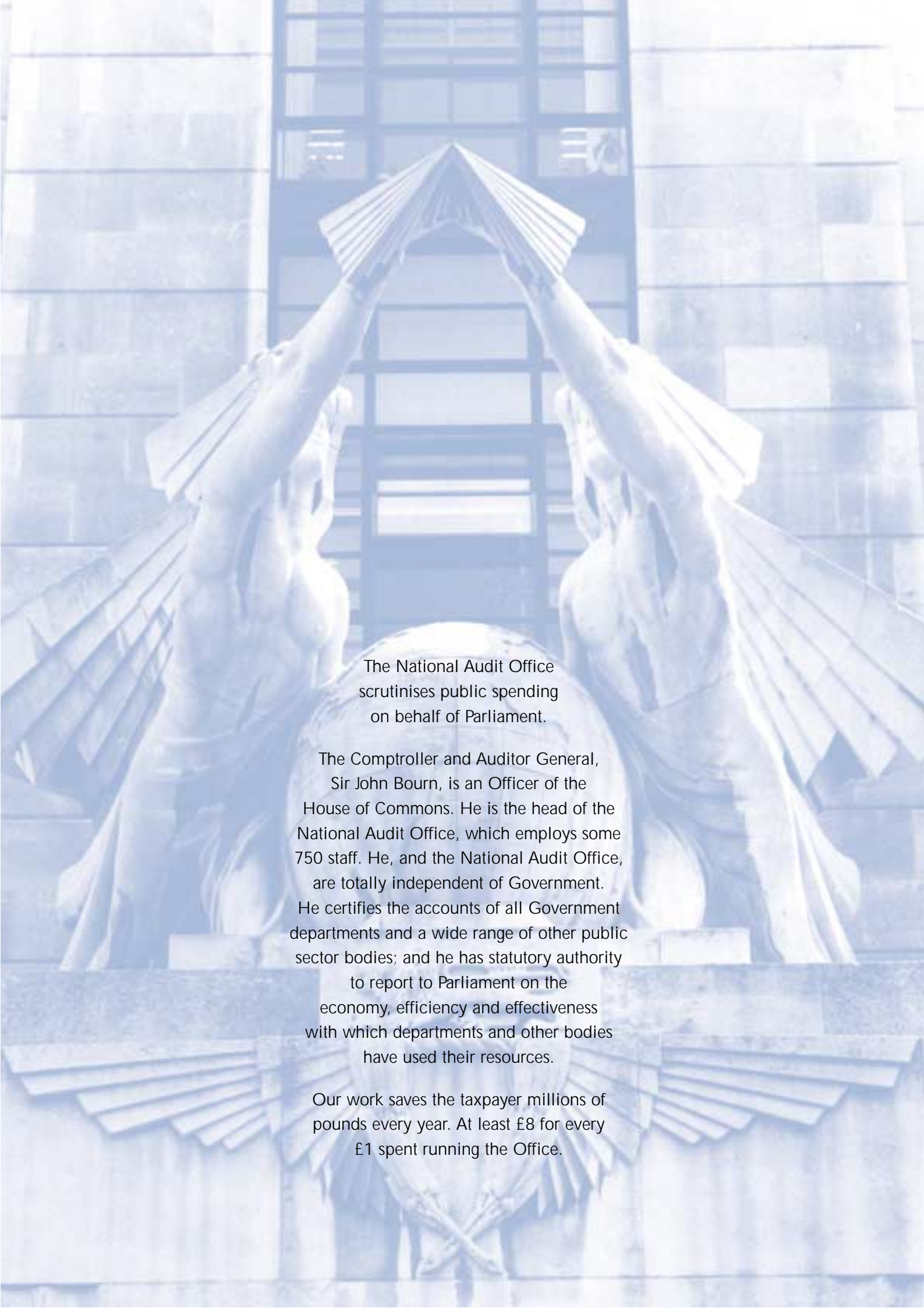


# Warm Front: Helping to Combat Fuel Poverty

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
HC 769 Session 2002-2003: 25 June 2003





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# executive summary

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- 1 Warm Front is a scheme which aims to reduce fuel poverty in vulnerable households in England by improving the energy efficiency of their homes<sup>1</sup>. There were an estimated 1.8 million<sup>2</sup> households in fuel poverty in England in 2001<sup>3</sup>. Fuel poverty damages people's quality of life and health, with more illnesses such as influenza, heart disease, and strokes as well as increased risk of death in winter. The Scheme is aimed at those groups most vulnerable to fuel poverty: households with children, the over 60s and the disabled or long-term sick. The Scheme is a major component of the government's UK Fuel Poverty Strategy, published in November 2001, which aims to eliminate fuel poverty in England by 2016, and to eliminate it in vulnerable groups by 2010 as far as reasonably practicable.
- 2 The Scheme, which costs on average £150 million a year, provides grants for insulation and heating to homes in the owner occupier and private rented sector - fuel poverty in social housing is now addressed through other programmes<sup>4</sup>. Warm Front replaced the former Home Energy Efficiency Scheme in June 2000. The Scheme is overseen and funded by the Department for Environment, Food and Rural Affairs (the Department), and it is administered by two Scheme managers, Eaga Partnership Ltd and TXU Warm Front Ltd<sup>5</sup>. Similar schemes operate in Scotland, Wales and Northern Ireland overseen by the devolved administrations.

## Key findings

- 3 Warm Front makes a difference in many cases; 303,000 households were assisted in 2002, receiving, on average, a grant of £445 which has the potential to save each household around £150 a year through reductions in fuel bills. However, there are some important ways in which the Scheme's effectiveness is impaired:
  - There are problems with the match between eligibility for the Scheme and fuel poverty; around a third of the fuel poor may be ineligible and up to two thirds of eligible households may not be fuel poor;
  - The heating and insulation measures available under the Scheme may be insufficient to move households out of fuel poverty in at least 20 per cent of cases, possibly more; and
  - Only 14 per cent of grants reached the least energy efficient homes and there is limited targeting of grants towards those households in greatest need.

As a result of these problems, the Scheme may make less of a contribution to the Fuel Poverty Strategy's aim of eliminating fuel poverty than it could.

<sup>1</sup> A fuel poor household is one which needs to spend more than 10 per cent of its income on fuel costs to heat its home to an adequate standard of warmth, generally defined as 21°C in the living room and 18°C in other occupied rooms.

<sup>2</sup> 1.8 million is the number of fuel poor households in England, as quoted in the first annual progress report on the UK Fuel Poverty Strategy, published in March 2003 and based on the English House Condition Survey 2001. The figures from this survey are currently undergoing further refinement and could be subject to change.

<sup>3</sup> English House Condition Survey 2001 using the definition of income which includes Housing Benefit and Income Support for mortgage interest (ISMI) which is used throughout this report.

<sup>4</sup> For example the Decent Homes Standard (2001) and the Energy Efficiency Commitment.

<sup>5</sup> Powergen acquired the TXU retail business, including Warm Front Limited, in December 2002. However, for the purposes of this report we have referred to this Scheme manager as TXU Warm Front Limited as the manager in charge for the majority of the period under review.

- 4 In part, these areas for improvement have their origins in the Scheme's history and development<sup>6</sup>. The Scheme's predecessor, the original Home Energy Efficiency Scheme, was not initially designed to alleviate fuel poverty but to improve household energy efficiency. Even the new Scheme, launched in June 2000 and rebranded as Warm Front in February 2001, was in place well before the launch of the Fuel Poverty Strategy in November 2001. Warm Front was brought within the Strategy, rather than specifically designed to address fuel poverty and the Strategy's aims. The Department is, however, in the process of reviewing Warm Front to ensure that it makes an effective contribution to the Strategy. The rest of this Summary sets out our findings in more detail, and makes recommendations.

## Detailed findings

- 5 **Warm Front has the potential to do much good.** The Scheme is a better means to tackle fuel poverty than the Home Energy Efficiency Scheme it replaced. More funds are available, the eligibility criteria are more suited to identifying fuel poor households in the target vulnerable groups, and the wider range of insulation and heating measures is better able to address warmth, comfort and energy efficiency in fuel poor homes. The Scheme is very popular with those who benefit from it, with a high level of customer satisfaction and low level of complaints, and it has the potential to make a real difference to these households.
- 6 **Current targets and performance measures do not provide a clear or meaningful view of progress against the Fuel Poverty Strategy.** The Fuel Poverty Strategy contains the target that "800,000 vulnerable households would be assisted through the Scheme by 2004" and this is translated into a Public Service Agreement (PSA) target "to reduce fuel poverty among vulnerable households by improving the energy efficiency of 600,000 homes between 2001 and 2004". Neither target is sufficiently linked to the Strategy's aim to eradicate fuel poverty as far as reasonably practicable. In particular, it is inappropriate to use the number of households assisted by the Scheme as a prime measure of success. This approach presumes that all households assisted were fuel poor at the start, and assumes that the assistance provided leads to improvements in energy efficiency, with the potential to reduce fuel poverty. In practice, these presumptions may not apply in all cases. The fuel poor are a dynamic group with new households becoming fuel poor each year, and eliminating fuel poverty is an ongoing task.
- 7 Ideally the impact of the Scheme would be measured in terms of the reduction in fuel poverty achieved. The Department, however, does not assess the impact of Warm Front in this way and so instead we have used improvements in the energy efficiency of recipients' homes as a proxy for the likely impact of the Scheme in moving households out of fuel poverty.
- 8 **Eligibility does not correspond to fuel poverty in many cases.** Warm Front is a scheme aimed at helping the vulnerable fuel poor. Assessing directly whether a household is fuel poor would be time consuming and complicated, and therefore receipt of 'passport benefits' is used as a proxy for fuel poverty and to determine eligibility. These benefits, which include for example Income Support, Housing Benefit and Disability Living Allowance, are chosen on the basis that they identify those either on low incomes or in one of the vulnerable groups (families with children, over 60s, and the disabled). The suitability of passport benefits as a proxy for fuel poverty has not been tested systematically, but some



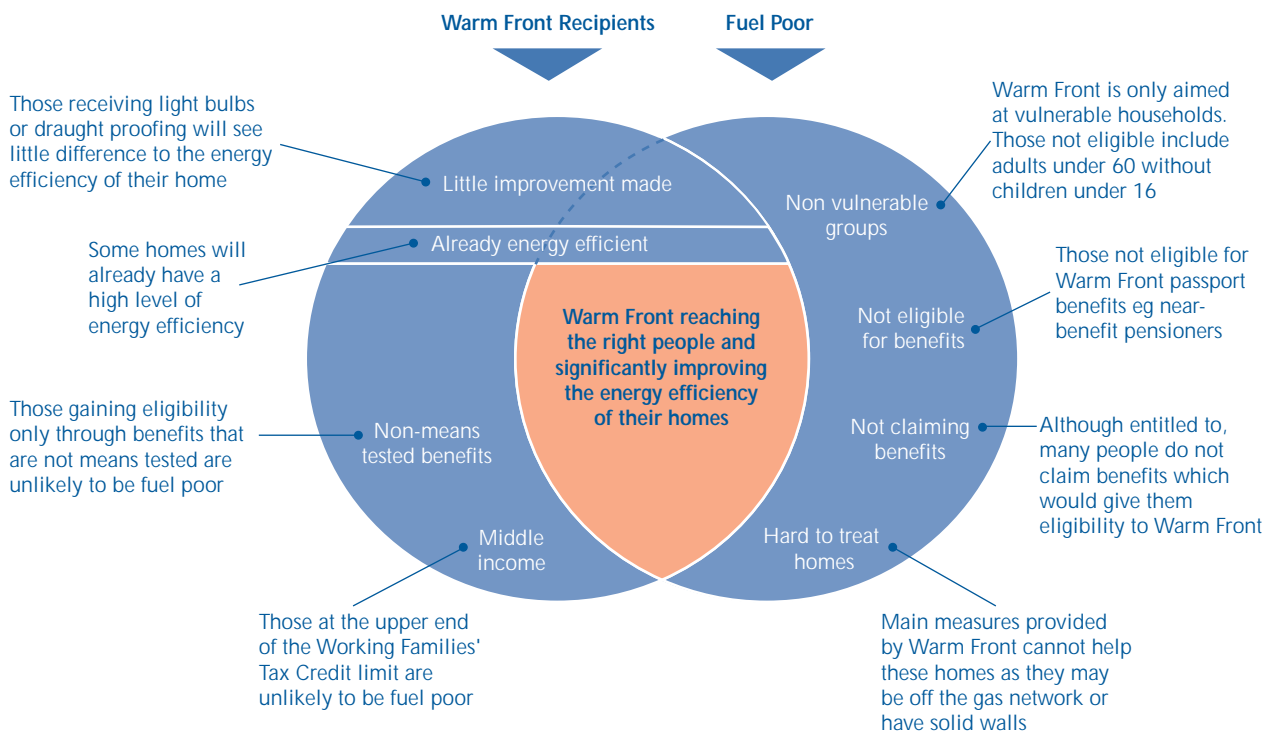
limited exercises suggest that there may be significant numbers of fuel poor (perhaps 35-40 per cent) in these vulnerable groups who are not eligible for Warm Front because they are not claiming benefit or are not entitled to the relevant benefits. Similarly, recent work commissioned by the Scheme managers combined with other data indicates that between 40 and 70 per cent of households eligible for Warm Front may not be fuel poor, because they have a reasonable level of income or live in a home which is already energy efficient.

- 9 In particular, some passport benefits appear to be less good indicators of fuel poverty than others. The Working Families' Tax Credit extended to middle income families, some of whom may not have been fuel poor. The changes in working tax credits in 2003 provided an opportunity to examine the suitability of the replacement credits as passport benefits, and the Department has now limited eligibility to those recipients of these tax credits on an annual income of less than £14,200. Disability Living Allowance is not means tested, and in the absence of any other passport benefit may not be a good indicator of fuel poverty.
- 10 Amongst the fuel poor not eligible for Warm Front are 'near-benefit' households, households not claiming benefits to which they are entitled, and the 'non vulnerable' fuel poor, for example households with adults aged under 60 with no children. Although some of these people are outside the scope of the current Warm Front scheme, the Department's aim of eliminating fuel poverty by 2016 may not be achievable while these ineligible groups remain, as the Strategy acknowledges. Benefits health checks are a way of helping more people to receive passport benefits and qualify for Warm Front by assisting people in understanding their entitlements to benefits.
- 11 **The range of measures offered does not always maximise impact.** The increased grants and wider range of measures under Warm Front are a considerable improvement over the previous Scheme. Generally all energy efficiency and heating measures that can be afforded within the grant maxima will be installed, unless they are already present in the home. This approach helps many homes, but does not have a significant impact on energy efficiency, and hence fuel costs, in others. For example, homes that receive only energy efficient light bulbs or draught proofing (20 per cent of all homes assisted in 2001-02) will only see a decrease in fuel costs of, at most, £25 a year.
- 12 A significant number of fuel poor households live in homes that are 'hard to treat', usually because they are not connected to mains gas (around 25 per cent of the fuel poor) or have a solid wall that cannot be cavity-filled (44 per cent of fuel poor homes), but Warm Front provides few or no effective options for homes of this type. In other cases the required energy efficiency measures may cost more than the grant maximum and, if the customer is unable to contribute funds or funding from other sources cannot be secured, choices must be made which may result in a less than ideal solution being implemented. For other homes the assistance needed falls outside the Scheme rules. For example, the repair of an intermittently working boiler or the replacement of a warm air heating system with a gas central heating one are not permitted under the Scheme.
- 13 **Grants are not targeted towards the most fuel poor or the least energy efficient homes.** Eligibility for Warm Front is based solely on receipt of passport benefits with no account being taken of the energy efficiency of the claimant's home. Applications are processed on a first come, first served basis, and the only targeting is a Departmental requirement that around 60 per cent of grants go to households aged over 60. More could be done to meet this target.

14 The Scheme may not be reaching those in greatest need and may under represent certain groups of fuel poor. Under current Scheme rules, for example, grants may be allocated to homes with high energy efficiency even though people in these homes are less likely to be fuel poor. In 2001-02, 14 per cent of grants reached the least energy efficient homes<sup>7</sup>. More targeting of grants to those homes with the lowest energy efficiency would improve the cost effectiveness of the Scheme, because these homes offer the largest scope for improvements and energy savings. In addition, grants and assistance to fuel poor in rural areas have been less common, with most help going to those living in urban areas because these areas generate applications more easily.

**Several factors reduce the Scheme's effectiveness**

*A limited proportion of Warm Front grants may reach the fuel poor and make a significant impact to the energy efficiency of their homes.*



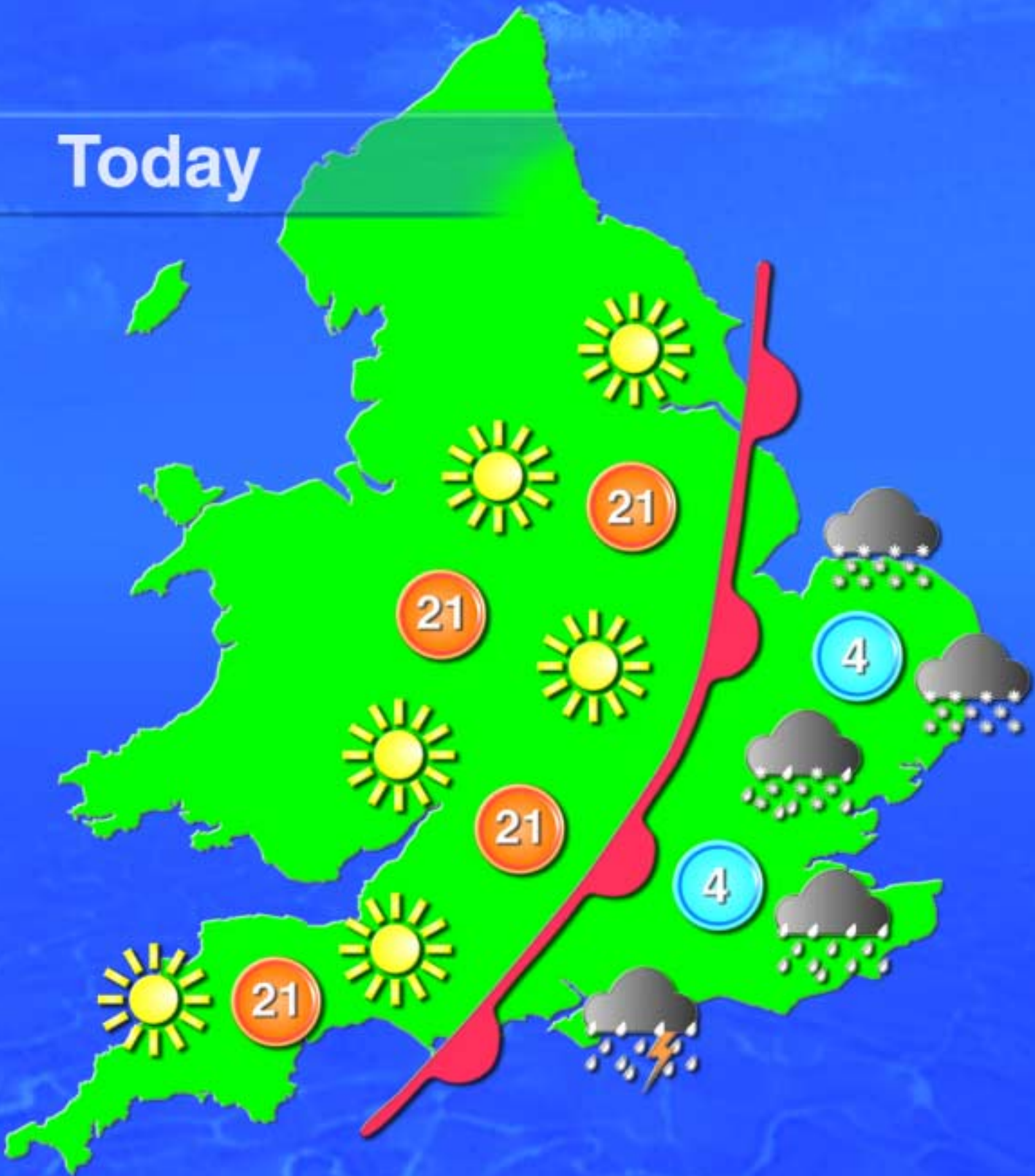
<sup>7</sup> Denoted as a SAP rating of less than 20. A Standard Assessment Procedure (SAP 1998) gives homes a rating from 1 to 100, with 1 being a house with very poor energy efficiency and 100 being a highly energy efficient house.

# Recommendations

- 15 The factors set out above which reduce the Scheme's effectiveness mean that a limited proportion of Warm Front grants may reach the fuel poor *and* make a significant impact to the energy efficiency of their homes, as shown in the figure on the page opposite.
- 16 As a result, Warm Front may be making less of a contribution than it could to the Strategy's aims. As part of their current review, the Department should therefore look at the fit between the Scheme and the Strategy, and examine whether the Strategy's aims are going to be met. More specifically the Scheme could be better directed towards the fuel poor by tightening eligibility and, in particular by taking account of a home's energy efficiency. In this way the funds available under the Scheme could be better utilised to help those who will benefit most in terms of reducing fuel poverty. Our recommendations are:
- 1 **Targets for the Scheme.** These should be framed around the average improvement in energy efficiency of households assisted, as well as the number of homes assisted, as a proxy for the impact on underlying fuel poverty. Reporting against the target should include only homes where a real reduction in energy costs has been achieved, helping to move households out of fuel poverty.
  - 2 **Impact of Warm Front.** Currently the Department has only limited data about the impact which Warm Front has on the actual fuel costs of the households helped. To better inform Scheme design, and assess whether the Strategy's aim of eliminating fuel poverty is being achieved, the Department should research whether Warm Front has moved assisted households out of fuel poverty.
  - 3 **Eligibility and coverage.** Currently some of the benefits used to determine people's entitlement to Warm Front are not focusing help on those most likely to be in fuel poverty. The Department should review the effectiveness of the Scheme's eligibility provisions, to identify the extent to which they may exclude the vulnerable fuel poor, and the extent to which they may direct funds to those who are not fuel poor. The Department should consider concentrating eligibility only in those groups on low incomes as shown by receipt of means tested benefits.
  - 4 **Maximising improvements to energy efficiency.** The Department should consider how to concentrate its resources in those eligible homes with the lowest energy efficiency where the most cost effective improvements can be made. This could take the form of guidance to Scheme managers and surveyors rather than new rules that seek to prescribe for all individual circumstances. By reducing expenditure on measures which have limited impact on fuel costs, and by reducing expenditure on homes which are already energy efficient, more could be done to help those households most in need.

More detailed recommendations are at Appendix 1.

# Today



# Part 1

## Warm Front and fuel poverty

### Warm Front

- 1.1 Warm Front is the new name for the Home Energy Efficiency Scheme. The Scheme was re-launched in June 2000, replacing a previous Scheme which began in 1991, and in February 2001 was re-branded as Warm Front for marketing purposes. Warm Front's aim is to improve energy efficiency for vulnerable households in fuel poverty<sup>8</sup> in the private rented and owner-occupier sectors. It provides grants of up to £1,500 for insulation, energy efficiency measures and heating improvements. Warm Front plus is an extension of the Scheme available to the over 60s which also provides central heating and has a grant maxima of £2,500<sup>9</sup>. Warm Front, overseen and funded by the Department for Environment, Food and Rural Affairs (the Department), has an annual expenditure of around £150 million a year<sup>10</sup>, of which 77 per cent was spent on grants and 23 per cent on the administration<sup>11</sup> of the Scheme in 2001-02.
- 1.2 We reported on the previous Scheme in 1998, focusing on the administration of the Scheme and maximising impacts. Following a consultation process by the Department in 1998-99 the Scheme was re-launched in June 2000, taking account of our recommendations and those of the Committee of Public Accounts<sup>12</sup>. The key differences between the old Scheme and Warm Front are shown in [Figure 1 overleaf](#).
- 1.3 Fuel poverty can damage people's quality of life and health - the likelihood of ill health is increased by cold homes, with illnesses such as influenza, heart disease, and strokes all exacerbated by the cold. The UK has around 40,000 more deaths in winter than in the rest of the year. Studies<sup>13</sup> suggest that the prevalence of winter deaths is greater in people living in homes that are poorly heated and in particular in homes with low energy efficiency.
- 1.4 Eligibility for Warm Front is similar to the previous Scheme with the exception that grants are no longer available to over 60s who are *not* in receipt of benefits. For a household to be deemed fuel poor it needs to spend more than ten per cent of its income on maintaining its home at an adequate standard of warmth. However, it is difficult to apply this test in practice, and therefore eligibility is instead based on the receipt of specific benefits (referred to as 'passport benefits'). Warm Front is aimed at the groups most vulnerable to the effects of fuel poverty, who also make up over 80 per cent of the fuel poor: low income households with children; disabled people or those with a long-term illness; and older (over 60) low income households. There were an estimated 1.8 million in fuel poverty in England in 2001 ([Figure 2 overleaf](#)). This is a sizeable decrease from the 3.3 million households who were fuel poor in 1998. The government recognises that the majority of this reduction is the result of lower fuel prices and increased incomes rather than the impact of Warm Front in the first year after its launch in 2000.
- 1.5 Warm Front differs from the earlier Scheme in that it now focuses on private housing rather than social housing. This change was made because fuel poverty was recognised to be more prevalent in private sector housing<sup>14</sup>. Fuel poverty in social housing, the focus of the previous Scheme, is now addressed in other ways. For example, the Decent Homes Standard of 2001 requires all social housing to have minimum levels of insulation and heating by 2010. Those in social housing can also be helped through the Energy Efficiency Commitment (a legal requirement for gas and electricity suppliers<sup>15</sup> to meet energy saving targets by installing energy efficiency measures in homes). The current Commitment requires at least 50 per cent of the energy savings to be targeted on households receiving income related benefits and income-related tax credits.

<sup>8</sup> A fuel poor household is one which needs to spend more than 10 per cent of its income on fuel costs to heat its home to an adequate standard of warmth, generally defined as 21°C in the living room and 18°C in other occupied rooms.

<sup>9</sup> Throughout this report Warm Front refers to both Warm Front and Warm Front plus.

<sup>10</sup> The cost of the Scheme in 2001-02 was £197 million, i.e. higher than an average year due to monies being carried forward from the previous year as a result of the Scheme's lower than expected level of activity in its first year.

<sup>11</sup> Administration covers all 'non measure' costs including marketing, call centre costs, surveys, post installation inspections and Scheme manager's costs.

<sup>12</sup> See Appendix 2 for the recommendations from the Committee of Public Accounts as a result of our previous report and the response to these.

<sup>13</sup> 'Cold Comfort: The social and environmental determinants of excess winter deaths in England, 1986 - 1996' by Paul Wilkinson.

<sup>14</sup> The English House Condition Survey 1996.

<sup>15</sup> The requirement applies to all suppliers with at least 15,000 customers.

1 A comparison of Warm Front and its predecessor

Warm Front is now aimed at private homes, and has increased grant maxima.

Old Scheme	Warm Front
<p>75% grant recipients in social housing</p> 	 <p>Now private sector only (owner-occupied and private rented)</p>
<p>Grant maximum of £315</p> 	 <p>Grant maximum of £1,500 Warm Front plus maximum £2,500</p>
<p>Mainly insulation measures</p> 	 <p>Insulation <b>plus</b> heating measures (see Figure 3)</p>
<p>One Scheme manager</p> 	 <p>Two Scheme managers</p>

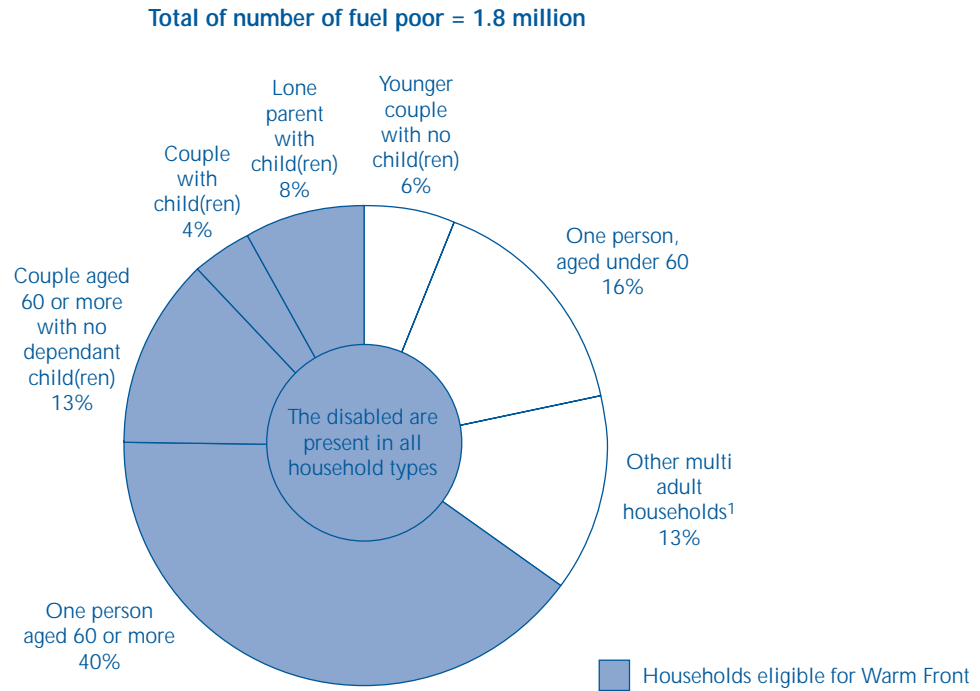
Source: National Audit Office

1.6 Warm Front provides a wider range of measures than its predecessor Scheme, and a corresponding increase in the maximum grant that can be spent on one household. The grant maximum was increased from £315 to £1,500 (and for over 60s to £2,500 under Warm Front plus). Under the previous Scheme grants provided mainly insulation measures, mostly loft insulation, cavity wall insulation and draught proofing. In contrast, Warm Front grants cover a range of insulation *and* heating measures. Under Warm Front plus, available only to the over 60s, the grant can extend to a new central heating system.

This wider range of measures offers a greater improvement in the energy efficiency of homes, the warmth of householders and potentially lower fuel bills. **Figure 3** sets out the main measures offered under Warm Front and Warm Front plus. These changes also mean that annual expenditure on the Scheme is much larger - a budget of around £600 million for the four years 2000 - 2004 compared to £300 million for the final four years of the previous Scheme to 31st March 2000. In 2001-02 the average grant was £445.

**2 Households in fuel poverty, by household type, England 2001**

Warm Front is only aimed at those most vulnerable to the effects of fuel poverty.






**NOTE**

1. Includes families without children under 16, and students.

Source: English House Condition Survey 2001

**3 Core heating and insulation measures available to Warm Front recipients**

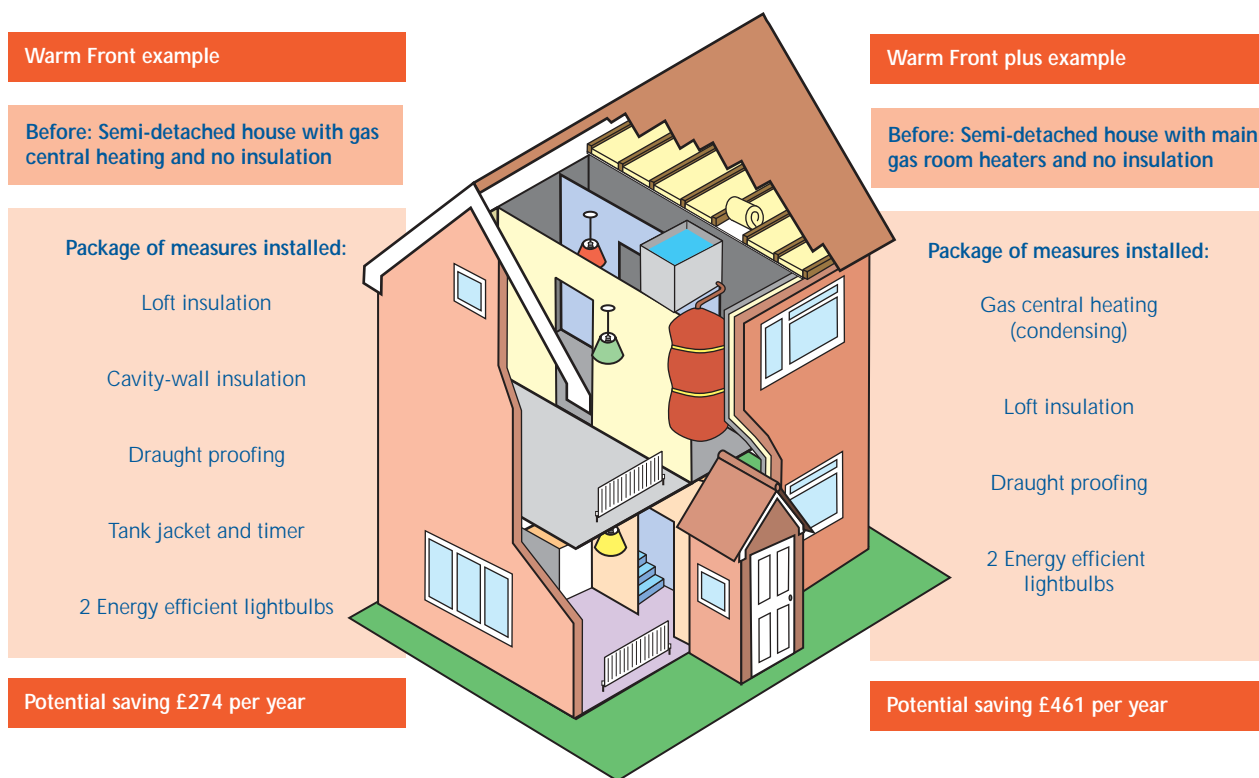
Warm Front offers a wider range of heating and insulation measures.

		
<p><b>Insulation measures</b></p> <ul style="list-style-type: none"> <li>Loft insulation</li> <li>Draught proofing</li> <li>Cavity-wall insulation</li> <li>Foam insulated dual immersion hot water tank</li> </ul>	<p><b>Heating systems</b></p> <ul style="list-style-type: none"> <li>Gas room heaters with thermostat controls</li> <li>Electric storage heaters</li> <li>Converting a solid-fuel open fire to a modern glass-fronted fire</li> <li>Boiler repairs and replacements</li> <li>Warm Front plus also offers installations of gas or electric central-heating systems</li> </ul>	<p><b>Other measures</b></p> <ul style="list-style-type: none"> <li>Energy advice</li> <li>Two energy efficient light bulbs</li> <li>Hot water thermal jacket</li> <li>Timer controls for electric space and water heaters</li> </ul>

Source: National Audit Office

#### 4 Two typical packages of measures offered by Warm Front

*A package of measures can result in considerable annual savings*



Source: National Audit Office

1.7 Receiving insulation or heating through Warm Front can make a big difference to a household, who could enjoy lower fuel bills or have an adequately heated home for the first time. **Figure 4** shows typical packages of measures with the potential cost savings.

1.8 Another change is that Warm Front is now administered on behalf of the Department by two Scheme managers - Eaga Partnership Ltd and TXU Warm Front Ltd. Eaga Partnership Ltd, the only Scheme manager under the previous Scheme, is the Scheme manager for three areas of England<sup>16</sup> and TXU Warm Front Ltd is the Scheme manager for the fourth<sup>17</sup>. The Scheme managers are responsible for a range of activities including marketing, identifying eligible households, approving applications, surveying properties, appointing and managing contractors to complete the work, and carrying out quality insurance inspections on work done. In addition the Department employs quality assurance assessors, White Young Green, to look at all aspects of the delivery of the Scheme.

1.9 Warm Front is no different from its predecessor Scheme in that the householder must initiate the process by making an application. Applications may be generated after the Scheme manager or some other agency, such as local charities or healthcare workers, have visited areas and solicited interest from households most likely to benefit from the Scheme. **Figure 5** shows the process from application to completion in more detail.

### The Fuel Poverty Strategy

1.10 Warm Front is a key component of the UK Fuel Poverty Strategy, launched jointly by the Department for Environment, Food and Rural Affairs and the Department of Trade and Industry. The Warm Homes and Energy Conservation Act 2000 required the government to publish and implement a strategy for reducing fuel poverty, leading to the publication of the Strategy in November 2001. The Strategy focuses primarily on measures to improve the energy efficiency and reduce the costs of fuel for fuel poor households. Income measures, also vital in eliminating fuel poverty,

<sup>16</sup> Covering the North East, North West, West Midlands, South West, South East and Greater London.  
<sup>17</sup> Covering East Midlands, Yorks and Humber, and Eastern regions.

**5** Stages in receiving a Warm Front grant

There are a number of stages to receiving a Warm Front grant



Source: National Audit Office

form part of a long-term solution being addressed through wider poverty and social exclusion policies. The third cause of fuel poverty, high fuel prices, is tackled through a number of programmes to maintain a downward pressure on fuel bills. These programmes are outlined in the Strategy and included reducing VAT on domestic fuel and Ofgem's role as regulator of suppliers. The Strategy has an overall aim to eliminate fuel poverty in England by 2016 and to eliminate it within vulnerable groups by 2010 as far as reasonably practicable.

#### 1.11 Warm Front is described in the Strategy as:

"the Government's main (energy efficiency) programme for private sector households. The Scheme is designed to tackle fuel poverty among those most vulnerable to cold-related ill health. In total the Strategy expects that some 2 million households will benefit from Warm Front by 2010".

#### 1.12 To advise on implementation of the Strategy the government established an advisory Non-Departmental Public Body, the Fuel Poverty Advisory Group, in January 2002. The Group's primary task is to report on progress towards the Strategy, and to propose and implement improvements to mechanisms for its delivery. The Group includes representatives from local government and the energy, housing, consumer and health sectors, and the Warm Front Scheme managers.

## What we did

1.13 We examined the effectiveness of Warm Front in reaching vulnerable fuel poor households and making a difference to the energy efficiency of their homes. We used a variety of methods to obtain our evidence, including analysis of the Department's and Scheme managers' data and files, accompanying surveyors on visits, and interviewing stakeholders both individually and in focus groups. In addition, we examined progress in implementing recommendations made by the Committee of Public Accounts, summarised in Appendix 2. Our methodology is described in Appendix 3 and a summary of stakeholder views is at Appendix 4.

1.14 Throughout our examination we worked closely with the Department's in-house consultancy unit who carried out a parallel internal review of Warm Front. This internal review focused on eligibility for Warm Front, the Scheme's impact on fuel poverty, and administration of the Scheme. The review's conclusions and recommendations are consistent with those set out in our report.

#### 1.15 In the remainder of this report:

- Part 2 looks in detail at the **eligibility** criteria of the Scheme and whether the Scheme is reaching those at whom it is aimed.
- Part 3 examines the **measures** offered under the Scheme, whether they maximise improvements to energy efficiency, and whether funds are directed to the least energy efficient homes, and hence likely to have the greatest impact on fuel poverty.
- Part 4 looks at the **targets** used to assess the success of the Scheme.



# Part 2

## Eligibility and distribution

2.1 This Part of the Report looks at the people receiving Warm Front grants. We found that Warm Front is a very popular scheme; however, there may be some problems with the criteria by which eligibility for the Scheme is determined. Although using 'passport' benefits is the most practical way to determine eligibility, some vulnerable fuel poor are not eligible for Warm Front because they are not claiming the passport benefits or are not entitled to them, and others are entitled to Warm Front despite not being fuel poor. We identified a number of specific areas where the match between eligibility and the vulnerable fuel poor could be improved. We also found that within the eligibility criteria there is limited targeting of grants. More could be done to meet the targets for grants to the over 60s and the distribution of grants does not match the distribution of the fuel poor either on a regional basis or in the split between rural and urban grant recipients.

### Warm Front is a popular scheme

2.2 Around 300,000 households were assisted by Warm Front in 2001-02. The Scheme is popular with those households who have benefited from it. Customer satisfaction surveys carried out by the Scheme managers show that around 90 per cent of Warm Front recipients were satisfied or very satisfied with the Scheme. Complaints arise in only approximately one per cent of cases. Over 95 per cent of recipients would recommend Warm Front to a friend, and nearly 28 per cent of respondents heard about the Scheme from a friend, family or neighbour. **Figure 6** shows extracts from just a few of the many letters that both Scheme managers receive each year.

#### 6 Satisfied Warm Front customers

*The great majority of Warm Front recipients are pleased with the Scheme*

- "Before I had the insulation, the house was always cold during the winter months, especially in the morning. Now the heating comes on for a short while and the house **holds the heat** better after it goes off. It is just like someone has wrapped a big wool blanket around the house. I also noticed that my fuel **bills are lower**, because I don't need to have the heating on for as long each day" (Mrs H., County Durham)
- "Thank you for insulation to our home. We have already noticed the bungalow is **much warmer!** My husband being a semi-invalid does feel the cold a lot" (Ms M., Buxton)
- "I would like to thank you for replacing my defunct heating with a new system. It is **very efficient** and has made a **tremendous difference** to the quality of my life" (Mrs W., London)
- "As an elderly senior citizen of somewhat limited means, I am highly delighted with all that has happened... **Many thanks** for your help in making it all possible. It is a lovely 'early Christmas present'" (Mr T., Hull)

*Source: Warm Front Scheme managers*

2.3 Following our 1998 report on the previous Scheme, the Committee of Public Accounts recommended that the Department should do more to measure the benefits delivered by the Scheme, in terms of improved energy efficiency and greater warmth and comfort. In response:

- Information on energy efficiency has been improved. Improvements to energy efficiency are measured using a Standard Assessment Procedure (SAP 1998) rating<sup>18</sup>, and the Scheme managers now calculate this for all homes receiving a Warm Front grant. SAP improvements measure the 'potential' improvements in energy efficiency that could be made under standard conditions, assuming heating systems are used effectively and efficiently. For 2001-02 an average SAP improvement of 13 points was seen and it is estimated that on average households had the potential to save around £150 per year as a result of Warm Front measures after receiving an average grant of £445. In practice households may take some of the benefit by having a warmer home rather than saving energy. In addition, the Scheme managers calculate theoretical carbon savings as a result of the measures installed by Warm Front. Although there is no annual target for carbon savings from the Scheme, in 2001-02 the measures installed would lead to a potential annual saving of over 100,000 tonnes of carbon<sup>19</sup>.
- Greater warmth and comfort is more difficult to measure, but is assessed through customer satisfaction surveys. Both Scheme managers carry out these surveys regularly, although the Department does not require this. The Scheme managers use the information to make improvements to the services offered and to gauge reaction to the Scheme. A recent round of surveys showed that 82 per cent of respondents felt warmer as a result of Warm Front measures. The customer comments at Figure 6 also reflect this view.

2.4 At present, the two Scheme managers carry out surveys at different times, and TXU carry out a greater volume of surveys than Eaga. The survey questions also vary between Scheme managers. The surveys could be better co-ordinated to provide a more comprehensive and coherent view of the Scheme's benefits. In addition, White Young Green (the Department's quality assurance contractors) carry out their own independent customer satisfaction surveys.

## Passport benefits provide a practical way to determine eligibility

- 2.5 A scheme aiming to eliminate fuel poverty should base grant award decisions on an assessment of whether or not each applicant is in fuel poverty. This would require, however, a full assessment of the household income from all sources as well as the costs of the fuel required to heat the home to a comfortable level. A decision could then be made on whether or not the applicant was in fuel poverty, based on the definition of a fuel poor household as one which needs to spend more than ten per cent of its income on fuel costs to heat its home to an adequate standard of warmth.
- 2.6 In reality, however, such individual assessments are not practical because of inherent difficulties and costs in obtaining such detailed and accurate data. Instead the Department has specified certain 'passport' benefits to act as the proxy indicator, since (in general) they are awarded to people in the vulnerable groups. **Figure 7** shows the passport benefits that entitle people to a Warm Front grant. The stakeholders we consulted (see Appendix 4) agreed that some form of passport benefits system was the best practical option.
- 2.7 There are two major risks in using passport benefits as a way to determine entitlement for Warm Front. There may be people in the target group (the vulnerable fuel poor) who are not receiving any of the passport benefits. There may also be passport benefit recipients who are not fuel poor. **Figure 8** shows diagrammatically how these risks might reduce the Scheme's effectiveness.
- 2.8 Early experience and data from the Warm Zone pilot project (see **Figure 9 overleaf**) suggest that:

- A third or more of fuel poor households are not being reached by Warm Front<sup>20</sup> largely because they are not claiming the passport benefits or are not eligible for them.
- A third or more of those eligible for Warm Front may not be fuel poor. A key reason for this is that not all passport benefits are reliable indicators of fuel poverty.

This data should, however, be treated with caution as they are preliminary data for a limited number of areas around the country, and based on doorstep surveys rather than an in-depth analysis of a representative sample of households. A recent modelling exercise carried out on behalf of Eaga and some analysis of actual grant recipients, commissioned by TXU, suggest that around 60 to 70 per cent of those receiving Warm Front grants may not be fuel poor.

<sup>18</sup> A Standard Assessment Procedure (SAP 1998) gives homes a rating from 1 to 100, with 1 being a house with very poor energy efficiency and 100 being a highly energy efficient house. Calculations are based on the house type and layout of the property along with the heating and insulation measures present. SAP improvements indicate energy efficiency improvements in terms of reduced energy costs for heating and hot water. They indicate the 'potential' improvements that could be made under standard conditions assuming heating systems are used effectively and efficiently.

<sup>19</sup> The Climate Change programme anticipates that Warm Front will save 0.2 megatonnes of carbon by 2010.

<sup>20</sup> Warm Zones found that 35 - 40 per cent of fuel poor are not eligible for Warm Front or priority EEC.

**7** Passport benefits that determine eligibility for Warm Front

Eligibility rules are directed towards three vulnerable groups.

	Households <sup>2</sup> (with under-16s)	Disabled <sup>3</sup>	Over-60s (Warm Front plus)
Income Support	✓	✓ <sup>4</sup>	✓
Housing Benefit	✓	✓ <sup>4</sup>	✓
Council Tax Benefit	✓	✓ <sup>4</sup>	✓
Income-based Jobseeker's Allowance	✓	-	✓
Working Families Tax Credit <sup>1</sup>	✓	-	-
Disabled Persons Tax Credit	-	✓	-
Attendance Allowance	-	✓	-
Disability Living Allowance	-	✓	-
Industrial Injuries Disablement Benefit	-	✓ <sup>5</sup>	-
War Disablement Pension	-	✓ <sup>6</sup>	-

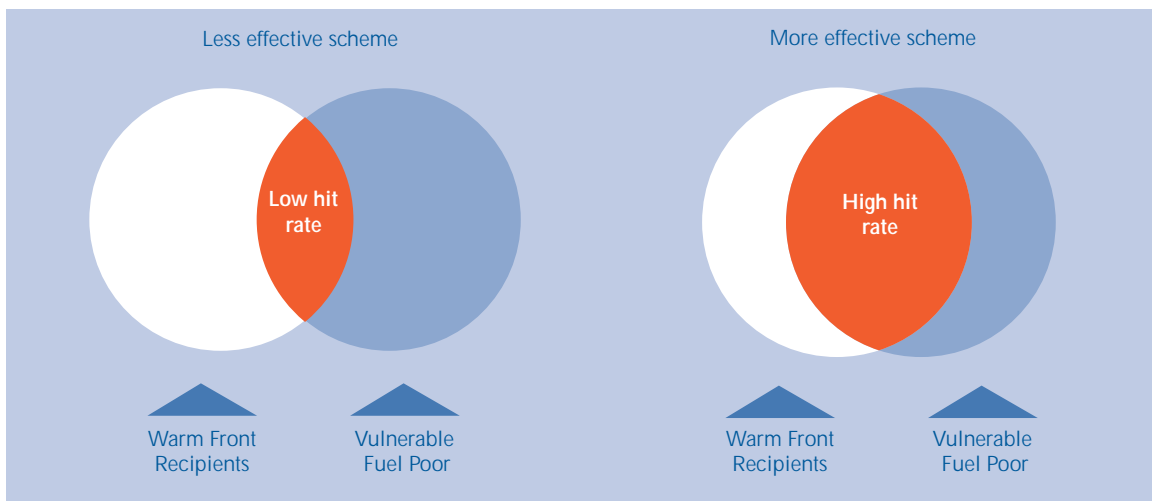
**NOTES**

1. Replaced by Working Tax Credit and Child Tax Credit from April 2003.
2. Includes those who are pregnant and in receipt of maternity certificate (the "MAT B1").
3. Includes disabled people of any age.
4. Must include a disability premium.
5. Must include Constant Attendance Allowance.
6. Must include the mobility supplement or Constant Attendance Allowance.

Source: National Audit Office

**8** A simple model of good and bad scheme coverage

An effective scheme is one where the majority of those eligible is in the target population.



Source: National Audit Office

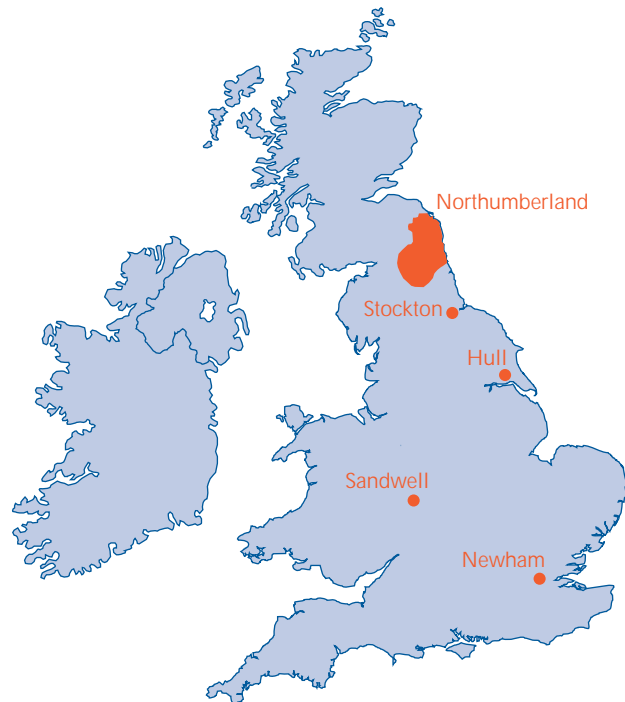
## 9 Warm Zones

*Warm Zones provides a systematic approach to identifying those in fuel poverty.*

Warm Zones is a pilot programme supported by the government to find more effective ways of tackling fuel poverty. Warm Zones' task is to establish effective partnerships to alleviate fuel poverty within the project areas. It does this through systematic identification and direction of aid to those in fuel poverty in a defined area.

The programme was launched in February 2001 under Defra and DTI. An independent evaluation of the Zones is being undertaken by the Energy Saving Trust with the final report in autumn 2005.

The five pilot zones (shown on the map opposite) use a door to door assessment process to identify those in fuel poverty. The Warm Zones teams then carry out a range of activities to provide assistance to fuel poor households predominantly making referrals to Warm Front and utilising Energy Efficiency Commitment funds.



*Source: National Audit Office*

## Some fuel poor are not eligible for the Scheme

2.9 There are a number of reasons why fuel poor households may not be eligible for Warm Front. A significant group of these are not eligible because they are not claiming the benefits to which they are entitled. Pensioners are particularly unlikely to claim, because of barriers such as the complexity of the system and a lack of awareness. Data from our recent report 'Tackling pensioner poverty: Encouraging take-up of entitlements' (HC 37 Session 2002 - 03) suggested that between one-quarter and one-third of pensioners with entitlement do not claim Income Support.

2.10 Benefits health checks assist people in understanding their entitlements to benefits, and hence increase take up. Both Scheme managers have carried out such health checks, either as a trial or in other parts of their business, and found that 20 to 40 per cent of non-claimants across all age groups were entitled to benefit and thus were eligible for Warm Front (see Figure 10). Benefits health checks could therefore be considered for those applicants apparently ineligible because they are not currently claiming passport benefits.

## 10 Benefits health checks

*Benefits health checks can help identify those eligible for Warm Front.*

A benefits health check is a discussion with potential benefit claimants, to establish which benefits they are currently claiming and whether there are any others for which they are eligible.

Both Scheme managers have experience of benefits health checks:

- Eaga Partnership has a team of 15 staff carrying out benefits health checks for other schemes, over the telephone or by post. In general 20 per cent of households using the service are identified as qualifying for further benefit and the average unclaimed benefit is around £25 per week.
- TXU Warm Front's surveying company, National Energy Services, carried out a benefits health check pilot on Warm Front customers. This identified that 180 out of 466 people who completed the check were underclaiming benefits which would entitle them to Warm Front or Warm Front plus.

*Source: National Audit Office*

- 2.11 Other households may be fuel poor and yet unable to receive a Warm Front grant because they fall outside the benefit cut off points. 'Near-benefit' pensioners, those who have just enough income (for example, through a private pension) to be ineligible for means-tested benefits, were often cited by stakeholders we consulted (Appendix 4). Generally, single pensioners are more likely to be fuel poor (23 per cent of single pensioners are fuel poor<sup>21</sup>) than pensioner couples (8 per cent of this group are fuel poor).
- 2.12 Near-benefit pensioners who are currently unable to claim Warm Front may be helped by the introduction in October 2003 of the Pension Credit, which will replace the Minimum Income Guarantee (the equivalent of Income Support for pensioners). Pension Credit is expected to increase significantly the numbers of pensioners who take up benefit, from the 1.75 million currently receiving Minimum Income Guarantee to around 2.8 million on Pension Credit by October 2004. However, not all these people will be 'extra' potential Warm Front recipients, as some will already be claiming another passport benefit. However, Pension Credit could bring around 300,000 extra pensioner households into eligibility for Warm Front, if current Scheme rules apply.
- 2.13 Similarly, near-benefit non-pensioners may be helped by the Working Tax Credit, for those in low paid work, or the Child Tax Credit, for those with children whether they are in work or not. From April 2003 these two tax credits replaced the support previously available through the Working Families' Tax Credit, the Disabled Person's Tax Credit and the Children's Tax Credit.
- 2.14 Other fuel poor households are unable to claim Warm Front grants because they do not fall into one of the 'vulnerable' categories. A key group are fuel poor adults who are not disabled and under 60 with no children under 16. In 2001 they made up 17 per cent of all fuel poor households. Members of this group living in the private housing sector are unlikely to be reached by the other main programme for improving household energy efficiency - the Energy Efficiency Commitment, as suppliers are tending to work with social housing providers as this allows them to target the priority group in large numbers. Moving this group of people out of fuel poverty will be necessary if the target of eliminating fuel poverty in all groups by 2016 is to be reached.

## Some passport benefits recipients are not fuel poor

- 2.15 Most passport benefits determining eligibility for Warm Front are means-tested and are designed either to increase low incomes (e.g. Income Support, Job Seeker's Allowance), or to provide help for low-income groups with specific expenses (e.g. Housing Benefit, Council Tax Benefit). Since detailed means tests are carried out before these benefits are awarded, they act as a strong indicator of relative poverty. However, there are two Warm Front passport benefits that may be less good indicators of fuel poverty.
- 2.16 Stakeholders we consulted (see Appendix 4) considered that **Working Families' Tax Credit**, when it was in place, was less likely than other passport benefits to be a good indicator of fuel poverty. Working Families' Tax Credit gave extra help to those on middle incomes as well as low incomes, unlike most of the other passport benefits, as confirmed by statistics and analysis we obtained from the Inland Revenue (**Figure 11**). In the year ended 31st March 2002 around 15 per cent of Warm Front grants were awarded to households who reported that they were claiming Working Families' Tax Credit and gave no indication of receiving any other Warm Front passport benefits. In other cases, Working Families' Tax Credit was claimed alongside other benefits which were means-tested, thereby providing a better indicator of poverty and fuel poverty. The average fuel costs<sup>22</sup> for a couple with children were £718 in 2001-02, although for 20 per cent of families they were nearly £900<sup>23</sup>. This means that family income would have to be below £7,180 (or £9,000 for those with high fuel costs) for the family to be fuel poor.

### 11 Some examples of Working Families' Tax Credit

*Working Families' Tax Credit was available to those on middle incomes.*

- **Case A:** A two-parent family, where each parent works more than 16 hours per week, with three children. Two of the children are under five years old; their combined weekly childcare costs are £150. After-school childcare for the school-age child costs £20 per week. This family could earn a combined annual gross income of £37,900 and still receive Working Families' Tax Credit.
- **Case B:** A single-parent family, where the parent works more than 16 hours per week and has two children aged under five, with weekly childcare costs of £100. This family could earn an annual gross income of £29,600 and still receive Working Families' Tax Credit.

*Source: Inland Revenue*

<sup>21</sup> English House Condition Survey 2001.

<sup>22</sup> Electricity, gas and other fuels.

<sup>23</sup> The Office for National Statistics Expenditure and Food Survey 2001-02.

2.17 From April 2003 the Working Tax Credit and Child Tax Credit replaced the Working Families' Tax Credit. One of Warm Front's aims is to focus on families with children. Child Tax Credit is specifically aimed at such groups but it is available to those with annual gross household earnings of up to around £58,000 for 2003-04<sup>24</sup>. Those on family incomes of less than £13,230 a year will receive maximum support. The Department has recently introduced criteria to the effect that those claiming Child Tax Credit or Working Tax Credit can only use these tax credits as passports to Warm Front if their annual income is below £14,200.

2.18 **Disability Living Allowance** (and Attendance Allowance, the equivalent for the over-65s), is a passport benefit for Warm Front and does not involve a means test. Disability Living Allowance is paid as a contribution towards the extra costs faced by severely disabled people as a result of their disabilities. It is not an income top-up. For 2001-02 around 15 per cent of Warm Front grants were to households who reported that they were claiming Disability Living Allowance and gave no indication of receiving any other Warm Front passport benefits. Stakeholders we consulted (See Appendix 4) suggest that receipt of Disability Living Allowance alone may not be a good indicator of fuel poverty. The Department for Work and Pensions agreed that recipients are not necessarily on a low income.

## There is limited targeting within Warm Front to those in greatest need

2.19 In response to our 1998 report on the previous Home Energy Efficiency Scheme, in March 1998 the Committee of Public Accounts recommended that the Department should "consider whether more could be done to reach those in greatest need, particularly in the private rented sector and in the poorest households" - at that time the Scheme was based on a 'first come first served' basis and all eligible applicants in social housing received grants. In response the Department tightened up the eligibility criteria in drawing up the new Scheme - all recipients must now live in private dwellings and must receive passport benefits, the majority of which are means tested. However, the Scheme still operates on a first come, first served basis: grants are provided to all applicants that meet the eligibility criteria.

2.20 As a result, there are limits to the extent of targeting which is possible within the Scheme as currently designed either geographically or towards specific groups of people. The Department does not, on the whole, require targeting of the Scheme. One group, however, which has been given some priority on a more systematic basis are the over 60s. Over 60s are

identified by the Fuel Poverty Strategy as one of the groups most vulnerable to the effects of fuel poverty and at that time this group made up 57 per cent of the fuel poor. In response the Department:

- increased the grant maxima to £2,500 and offered central heating (under 'Warm Front plus') only to the over 60s; and
- set a target, based on the proportion of those in fuel poverty who were over 60, to ensure that the Scheme gave this group sufficient priority - a group it was thought hardest to reach. For 2001-02 the target was set at 61 per cent, although in practice only 49 per cent of grants went to this group.

2.21 Although the Scheme does not officially prioritise any groups within those eligible, in a few individual cases, Scheme managers have used their discretion to ensure works are carried out as quickly as possible because of the particular circumstances of the householder (Figure 12).

### 12 Cases in which applicants have been given priority

*Scheme managers may prioritise some special cases.*

- A household was referred in November 2002 where a family's boiler had failed so they were without heating or hot water. The family had a five month old baby suffering from a critical lung condition and two other children under the age of six. The Scheme manager used his discretion to prioritise this case enabling the work to be completed in three weeks.
- A couple required a gas replacement boiler in January 2003. The husband had suffered two heart attacks and three strokes and his wife had a heart problem. Installation was prioritised and carried out within two weeks.

Without prioritisation both these cases would have been subject to the normal target times for completion of heating measures which is 120 working days.

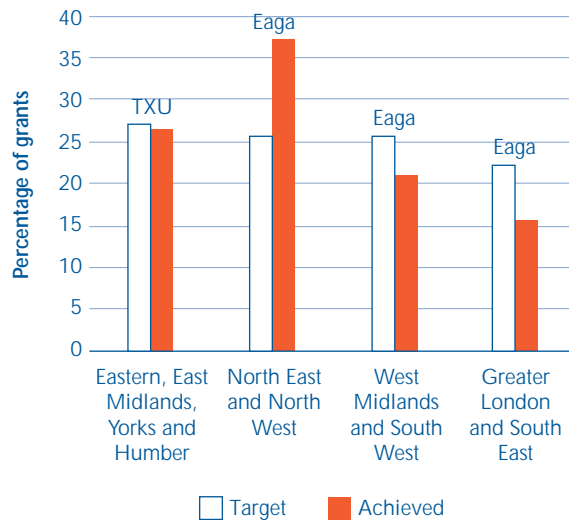
*Source: Warm Front Scheme managers*

## Warm Front grants do not match the distribution of fuel poverty

2.22 The Department sets the Scheme managers annual targets for the number of households to be assisted in each of their areas, based on the approximate regional distribution of fuel poor households. The Scheme managers assisted 303,000 households in 2001-02 compared to the overall target of 314,000. However, area targets were not met. The North East and North West area received nearly 50 per cent more than target, whilst both the South West and West Midlands area and the London and South East area fell significantly short of target (Figure 13).

### 13 Warm Front grants, by region, compared to target, 2001-02

*Scheme managers are not allocating grants according to their regional targets.*



Source: National Audit Office

2.23 In addition, rural areas are currently under-represented in households receiving Warm Front grants. The English House Condition Survey 2001 suggests that 28 per cent of fuel poor households live in rural areas<sup>25</sup>. The rural fuel poor are more likely to live in less energy efficient homes or be off the gas network, leading to 12 per cent of rural households being fuel poor compared to eight per cent of urban households.

2.24 There is no analysis of Warm Front recipients using the English House Condition Survey categories of rural and urban, but some analysis by Eaga using a different definition of 'rural'<sup>26</sup> suggested that less than five per cent of grants in Eaga areas went to rural areas in 2001-02 whereas in the Eaga area overall over 10 per cent of households are in rural areas. Rural areas would therefore appear to be significantly under-represented. Although TXU has not carried out the same analysis in its area, its analysis of the number of Warm Front applicants off the gas network also suggests that rural homes are under-represented.

2.25 Warm Front may not be reaching rural fuel poor households as effectively as it reaches urban ones because it is harder to identify and generate applications from rural eligible households. The greater concentrations of fuel poor households in urban areas are easier to find.

Both Scheme managers have identified the targeting of rural households as an issue and taken steps such as developing partnerships with health workers and others who visit rural households, by advertising in local papers, and using a promotional bus to visit rural areas. The Department should play a part in encouraging the take up of Warm Front in rural areas<sup>27</sup> by setting the Scheme managers targets for rural households.

2.26 An example of a rural area that has been successful in tackling fuel poverty is Newark and Sherwood District Council (Figure 14). The Council has received Beacon Status<sup>28</sup> for its work in this field.

### 14 Newark and Sherwood

*Newark and Sherwood District Council has received Beacon Status for its fuel poverty work.*

Newark and Sherwood District Council has achieved 'Beacon Council' status for its efforts to address fuel poverty. Covering a 652km<sup>2</sup> area of Nottinghamshire, Newark and Sherwood has a population of 106,000 and 46,000 dwellings. The level of fuel poverty was estimated at 5,247 households (11.3 per cent) in 2002. The District covers one third of Nottinghamshire and includes the rural Trent valley and the former mining communities of the Nottinghamshire rural coalfield.

The Council first began to take action to address fuel poverty in 1985 and initially focused on council-owned dwellings. Having reached its targets for these dwellings, it now focuses on the owner-occupied and private rented sector.

The Council believes that adopting a systematic approach is the key to their success:

- to identify householders at risk of fuel poverty, and at the same time
- to identify the dwellings that are not capable of delivering affordable energy to a vulnerable householder.

It believes that its energy performance database, based on detailed survey forms, is very important, and by 2006 will include almost all private sector dwellings. The existence of the database allows the Council to target small geographical areas and certain house types for particular grants and to effectively monitor and manage progress of their fuel poverty strategy.

The Council also points to partnership working as essential to ensuring that resources are maximised; for example, by developing mixed funding opportunities involving housing, health and social services. The Council facilitates its partnership working by providing basic energy awareness training to tenants, voluntary sector workers, health and social workers, Citizens' Advice Bureaux, council staff and councillors.

Source: National Audit Office

25 The definition of 'rural' used by the English House Condition Survey is made up of the following groups: Rural residential, including the suburban areas of villages, traditional villages, and isolated dwellings and small hamlets.

26 Defined by OECD as less than 1.5 people per hectare.

27 As defined by the English House Condition Survey.

28 The Beacon Council Scheme was introduced as a result of the government's 1998 White Paper 'Modernising Local Government: In Touch with the People'. The aim of the scheme is to identify centres of excellence in local government from which other councils can learn. Fuel poverty is one of the themes for which this status can be awarded.

# Part 3

## Maximising improvements to energy efficiency

- 3.1 This Part looks at whether the impact of Warm Front is being maximised by the insulation and heating measures being offered to households. Ideally the impact of the Scheme would be measured in terms of the reduction in fuel poverty achieved. The Department, however, does not assess the impact of Warm Front in this way and so instead we have used improvements in the energy efficiency of recipients' homes as a proxy for the likely impact of the Scheme in moving households out of fuel poverty.
- 3.2 We found that the range of measures offered is an improvement on the previous Scheme, although in some instances the Scheme rules do not lead to the most energy efficient solutions and for some homes Warm Front cannot provide an effective solution. We also found that in many cases households see very little improvement to the energy efficiency of their home in part because less effective options are still being offered under the Scheme. In addition we found that the impact of Warm Front is not being maximised because the current energy efficiency of the home is not a

consideration when allocating grants and thus the Scheme is not targeted towards the least energy efficient homes where its impact would be greatest. Finally we found that delays in the installation of insulation and heating measures are still a problem for the Scheme although some improvements have been seen over the past year.

### A wider range of measures is offered under Warm Front

- 3.3 Warm Front provides a wider range of measures than the previous Scheme, and higher grant maxima to accommodate more expensive measures such as central heating systems. The new range of measures was developed in conjunction with the Building Research Establishment to maximise the reductions in heating and fuel costs and improvements in warmth for the money available. **Figure 15** shows the main measures offered, together with the numbers and cost of measures installed in 2001-02.

#### 15 Core measures provided by Warm Front - number and cost in 2001-02

*A number of more expensive measures are now possible under the Warm Front Scheme.*

Measures	Numbers installed 2001-02	Typical cost range
Gas central heating	36,620	£1,100 - £1,800
Electric heating	5,150	£950 - £1,400
Cavity wall insulation	99,350	£180 - £320
Loft insulation	94,500	£180 - £260
Boiler replacement and heating repairs	17,470	Varies depending on nature of repair/replacement
Draught proofing	143,740	£80 - £120
Hot water jacket	32,500	£10 - £12
2 x Energy efficient light bulbs	303,000	£10

Source: National Audit Office

- 3.4 This wider range of measures adds to the Scheme's effectiveness in improving energy efficiency and alleviating fuel poverty. The Scheme's approach is to install all the measures that can be afforded within the grant maxima, where they do not already exist. In many cases this approach works well but, as set out in the sections which follow, there are situations when the Scheme is not sufficiently flexible to cater for homes that are 'hard to treat'<sup>29</sup> or where it leads to unsuitable or less than ideal choices.

## The full package of measures is not always possible within the grant maximum

- 3.5 In some homes the grant maxima cannot provide all the measures needed for an effective response to fuel poverty. For example, a householder having to choose between central heating and insulation to stay within the grant maximum would normally select central heating even though this may be expensive to run in an uninsulated house. The measures required exceeded the grant maxima in around three per cent of cases in 2001-02, although this figure will probably be greater than three per cent as it does not include those who opted not to have the full package of measures because of the financial contribution required from them.
- 3.6 Greater flexibility has been provided by the availability of additional funds from measures traded under the Energy Efficiency Commitment (Figure 16). Scheme managers have used such funds to supplement Warm Front grants and provide measures/enabling works not available under Warm Front or which were unaffordable within the grant maxima.
- 3.7 In the year 2001-02, £3.75 million was made available through trading with the Energy Efficiency Standards of Performance (EESoP)<sup>30</sup> but this amount is expected to have more than doubled in 2002-03. The key measures reallocated to suppliers under the Energy Efficiency Standards of Performance in 2001-02 were cavity wall insulation, loft insulation, hot water tank insulation and energy efficient light bulbs. With the informal agreement of the Department, Scheme managers use the additional funds to pay for works and measures which may be outside the constraints of the Scheme rules, such as fitting loft hatches, but which increase the flexibility of what can be provided. For some households in greatest need this integrated approach is likely to be more effective in addressing fuel poverty (see Figure 17). Such arrangements are expected to grow, however, the Department and Ofgem are still discussing how they should be formalised.

## 16 The Energy Efficiency Commitment

*Funds from energy suppliers under the Energy Efficiency Commitment increase Warm Front's impact.*

- The Energy Efficiency Commitment began on 1st April 2002 and runs until 31st March 2005. It is a government scheme, administered by Ofgem, which sets each energy supplier (both gas and electricity) a target to save energy based on the number of domestic customers they supply.
- The Commitment has an environmental focus, providing carbon savings under the Climate Change programme, as well as a social aim, with at least half of the energy savings targeted at the 'priority group' - households that receive income related benefits or tax credits.
- Ofgem anticipate that suppliers will deliver the majority of priority work in partnership with local authorities and registered social landlords as it was assumed by the Department that suppliers would be able to obtain additional funds for measures installed in social housing.
- The Commitment can cover a wide range of energy saving measures (for example energy efficient appliances) because its principal aim is to maximise energy savings and not reduce fuel poverty - around two-thirds of the savings gained are through the provision of insulation measures. Those forms of insulation that give the highest energy savings, namely cavity wall and loft insulation, are most common. Suppliers choose what measures they offer and how they market their schemes, and they face heavy penalties if targets are not met.
- The energy companies are able to 'buy back' measures provided originally under Warm Front, by providing funds for these measures to the Scheme managers, and to count the energy savings towards their targets. The Scheme managers in turn use these funds to provide extra or more flexible assistance to Warm Front recipients.

*Source: National Audit Office*

## The range of measures offered is not well suited to some fuel poor households

- 3.8 Households with 'hard to treat' homes have more limited options under the Warm Front Scheme. The most common reasons why homes are 'hard to treat' is that they are not on the gas network, an estimated 25 per cent of the fuel poor, or that they are without a cavity in their outside walls (44 per cent of fuel poor homes in England). In such cases the measures needed to lift the household out of fuel poverty may be outside the scope of the Scheme or may be more expensive and so above the grant maxima. Unless such homes are addressed the target to eradicate fuel poverty by 2016, and within vulnerable groups by 2010 as far as reasonably practicable, is unlikely to be met.

<sup>29</sup> 'Hard to treat' is the term generally accepted for those homes where one or more widely-offered energy efficiency or heating measures cannot be installed.  
<sup>30</sup> Changed to the Energy Efficiency Commitment from 1st April 2002.

3.9 The Fuel Poverty Strategy proposed two trials of new technologies to assist such homes:

- a £5 million pilot to test a range of renewable energy and related technologies for homes off the gas network, which should begin later in 2003; and
- a pilot testing the suitability of micro-Combined Heat and Power (CHP) technology to provide both the heating and electrical power needs of a household, which has not yet begun.

3.10 Gas central heating provides a very energy efficient means of heating. The only comprehensive heating alternative offered under Warm Front for those off the gas network is electric storage heating. However, even in a typical fully insulated semi-detached house the annual running cost (heat and hot water) with electric storage heating would be over £600 compared to gas central heating costs of £400. For homes within the gas supply area but not connected to it, connection to the gas supply and installation of a gas-condensing boiler with loft and tank insulation<sup>31</sup> may be the most cost effective option. Under the current Scheme rules, however, the only gas connection covered by Warm Front is the basic connection charge for properties within 23 metres of an existing gas line. This basic connection will cost between £200 and £400, reducing the funds available for installing central heating and insulation measures. In some cases, therefore, a full solution may not be possible within the grant maxima.

3.11 For those households within 2 kilometres of the nearest gas mains the average cost per household of extending the network is £824<sup>32</sup> but this type of connection does not attract Warm Front assistance. Another option outside of the Scheme is oil central heating which, whilst more prone to price fluctuations, has running costs similar to gas central heating. The initial installation costs, however, of oil central heating are greater, at around £2,500<sup>33</sup>, than those for gas central heating which typically costs around £1,600.

3.12 Warm Front Scheme rules provide only for 'like-for-like' replacement of non-operational heating systems and boilers. For example, an old and inefficient boiler which works intermittently cannot be replaced. Similarly, a defunct boiler can only be replaced with a similar model and not necessarily the most energy efficient one. This means that the most energy efficient option can not always be pursued (**Figure 17**) unless additional assistance can be obtained under the Energy Efficiency Commitment.

## 17 Cases not well served by measures available under Warm Front alone

*The Scheme rules do not always lead to the best solutions.*

- A property needed a replacement boiler. Under the Scheme rules this replacement could only be a basic boiler of the same kind. As the property was a three storey listed building with a condemned flue a replacement flue was required, for which the scaffolding costs alone came to £2,500. However, to install a combination boiler would only cost £1,500 and not require a new flue. A combination boiler was installed giving greater energy efficiency gains at a reduced cost, but this had to be funded by money from measures previously traded under the Energy Efficiency Commitment because a more modern boiler was outside the Warm Front rules.
- A Warm Front applicant required a replacement for a warm air heating system. Under the like-for-like replacement required by the Scheme rules a replacement system would cost at least £2,200. It would not, however, have been as energy efficient or as warm as a gas central heating system costing £2,000. In addition, the children in the household had an asthma condition exacerbated by warm air systems. Money from measures previously traded under the Energy Efficiency Commitment was used to provide gas central heating.
- A customer applied for a boiler repair. The boiler had not been working when the original survey was undertaken, but was working at the time of the technical survey. Scheme rules do not allow for repairs to be carried out on equipment that works intermittently and so the boiler could not be replaced or repaired with Warm Front funds.

*Source: National Audit Office*

## Some measures make little difference to the energy efficiency of the home

3.13 Warm Front has the potential to make significant improvements in the energy efficiency of homes - the average improvement for households assisted in 2001-02 was just over 13 SAP points (for an explanation of SAP please see paragraph 2.3). Some homes see a dramatic rise in energy efficiency but around 20 per cent of grants result in little or no improvement in the energy efficiency of homes (zero or one SAP point) and over 50 per cent of grants lead to an improvement of 10 or fewer SAP points (**Figure 18 overleaf**).

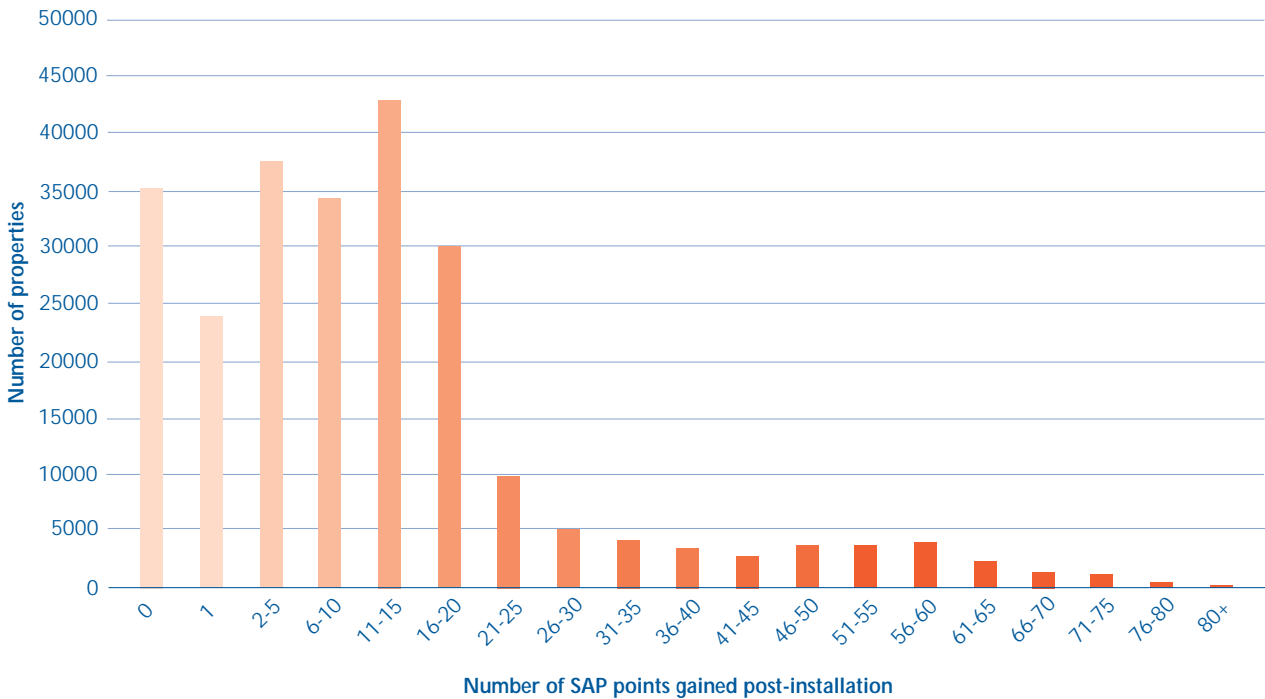
31 A paper entitled 'Hard to Heat Homes' produced for the Fuel Poverty Advisory Group by Transco, the Department of Trade and Industry, National Energy Services, and the Energy Efficiency Partnership for Homes, December 2002.

32 Ibid.

33 A report by National Energy Services for the Welsh Assembly entitled 'Alternative Measures for HEES', April 2002.

**18 Energy efficiency improvements from Warm Front in 2001-02**

*50 per cent of households have their SAP improved by 10 points or less.*



Source: Warm Front Scheme managers

3.14 In particular, grants which result only in the provision of two energy efficient light bulbs, around eight per cent of all grants in 2001-02, have no effect on the SAP rating<sup>34</sup>, and will generate an annual saving of just £10. This minimal and low cost response may be appropriate in some cases because the households are not fuel poor even though they are eligible. The light bulbs, although making little difference to the energy efficiency of the home, are relatively cost effective, costing around the same to install as the savings that will be generated in a year. In some cases, though, assistance is restricted to two light bulbs because the home is already energy efficient or because the requisite measures are not available under Warm Front. All homes, however, will receive energy efficiency advice from the surveyor.

3.15 Draught proofing is less cost effective than energy efficient light bulbs, has a negligible effect on SAP rating, and a low energy saving. Draught proofing was installed in 47 per cent of all households assisted in 2001-02 and was the only measure<sup>35</sup> installed in 12 per cent of households assisted. Data from both the Building Research Establishment and the Scheme managers shows that draught proofing will, at best,

improve SAP ratings by one point. Installing draught proofing costs at least £80 per house and yet will lead to a maximum annual saving of only £16. Draught proofing, however, has a positive impact on the comfort of recipients and is therefore a very popular measure.

3.16 Grants which result in just two light bulbs or draught proofing make up 20 per cent of all jobs. In 2001-02 these jobs cost around £14 million in grants (9 per cent of the total grants expenditure for the year). This sum could have provided around 40,000 more homes with cavity wall insulation or over 50,000 with loft insulation, either of which improve SAP ratings by over 5 points and can lead to annual household savings of over £100. In 1998, the Committee of Public Accounts found it surprising that more had not been done to promote those measures which are most energy efficient. The introduction of heating measures to the Scheme has led to potential choices between heating and insulation measures. The Scheme ultimately lets the householder decide on the package of measures and is not designed in a way that prioritises the more effective measures which can achieve the greatest energy efficiency and fuel cost savings for households.

<sup>34</sup> SAP is calculated based only on water and space heating.  
<sup>35</sup> In addition to energy efficient light bulbs.

## Warm Front does not consider the energy efficiency of the home when deciding eligibility

3.17 In general, there is a relationship between energy efficiency and fuel poverty. Over 45 per cent of households living in homes with a SAP rating of less than 20 are fuel poor, compared to less than 3 per cent of those in homes with a SAP rating of 50 and above. The Fuel Poverty Strategy states that "the (Warm Front) Scheme is designed to carry out works according to the standard of the property - if the home is already energy efficient then little if any improvements would be offered".

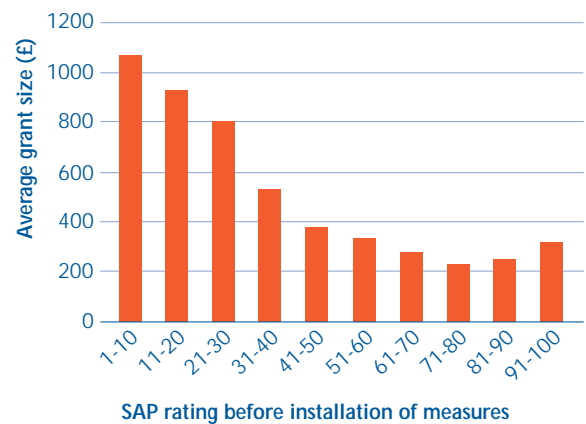
3.18 The Scheme rules mean that a householder will be offered all measures that fall within the grant maxima, unless they are already installed, regardless of the current energy efficiency of the home. In line with the Strategy's expectation many energy efficient homes tend to receive less assistance because they already have the full range of measures: for example they may receive just two energy efficient light bulbs. **Figure 19** shows that the least energy efficient homes generally received higher average grants because these homes are where most improvements can be made.

3.19 Some homes, however, receive significant (and costly) assistance even though they are already energy efficient. In 2001-02 around 13 per cent of homes assisted had a SAP rating of over 60<sup>36</sup> at the point of survey. Of these homes nearly 30 per cent received cavity wall insulation and a similar number received loft insulation each of which cost at least £180. In addition 5 per cent of homes with a SAP rating of 60 or more received a new central heating system costing in excess of £1,000 each. In total over £8 million was spent in homes with a starting SAP rating of over 60.

3.20 The funds available under Warm Front would achieve most if focused on those homes with a low SAP rating. There is, however, currently no formal mechanism for directing funds towards these homes. **Figure 20 overleaf** shows that the energy efficiency profile of homes receiving assistance in 2001-02 was not very different from the population at large. The Scheme has been successful at reaching those homes with the lowest energy efficiency (a SAP rating of 20 or less), however, 86 per cent of grants went to homes with a SAP rating of over 20.

### 19 Average grant size by SAP banding

*Higher grants went to those homes with lower SAP ratings.*



*Source: National Audit Office*

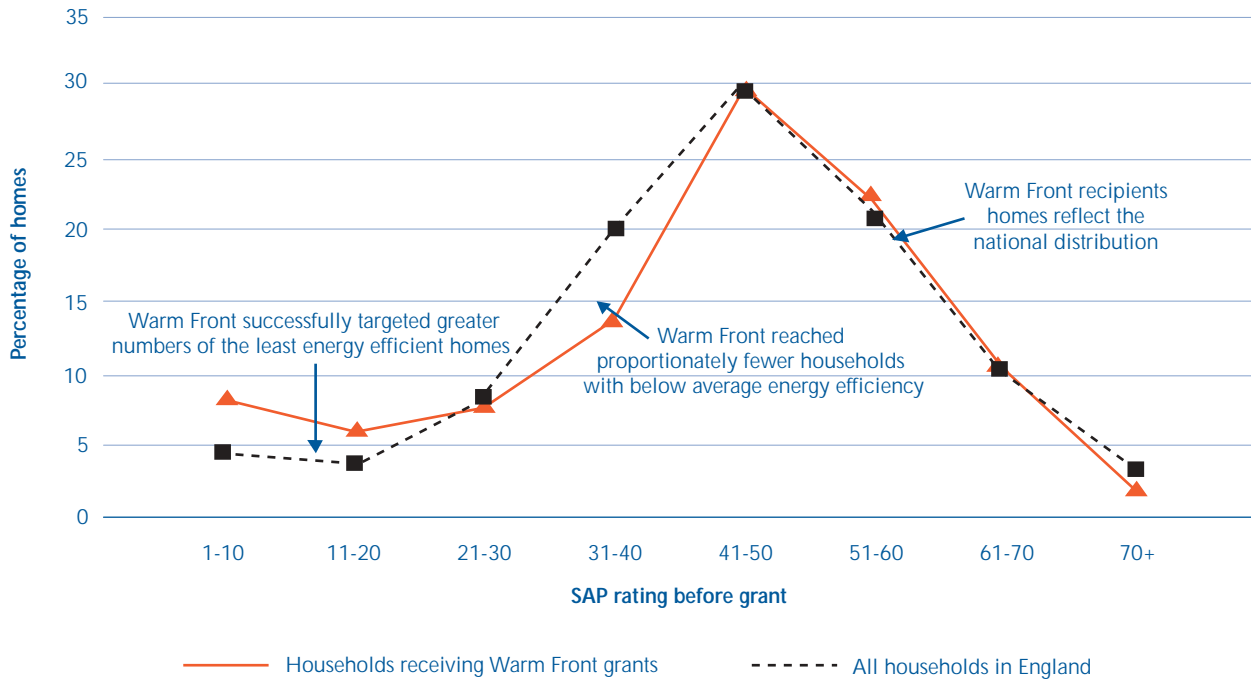
3.21 This failure to target or reach homes with lower SAP ratings has an impact on the benefits to be obtained from the Scheme. Energy cost savings are greatest in homes with a low SAP: the SAP scale is logarithmic and the potential financial effect of a given SAP improvement is greater in dwellings that start with a low SAP rating than those that start with a higher SAP rating. For example, an improvement in 5 SAP points from 10 to 15 would result in a reduction of notional heating costs per square metre of approximately £1.25 per year whereas a SAP increase from 35 to 40 would result in a reduction of £0.70 per square metre per year. In 2001-02 the SAP gains from Warm Front in the least energy efficient homes (those with a SAP rating of 10 or less) were on average 32 SAP points compared to an increase of less than five SAP points in homes which had a SAP rating of more than 60.

3.22 A number of stakeholders we consulted (see Appendix 4) thought that consideration of the energy efficiency of the home as well as the benefit status of the householder would improve the allocation of grants. In this way, more grants could be targeted towards households in the least energy efficient homes, who are more likely to be fuel poor, and hence who will be more likely to benefit financially from the measures. If Scheme managers had additional targets based on achieving a certain average increase in energy efficiency overall then this would provide the incentive to find the least efficient homes as it is here that SAP increases are easiest to achieve and this would reduce the number of homes receiving minimal assistance.

36 The English House Condition Survey uses SAP of 60 or more to denote "a reasonable level of energy efficiency".

**20** How Warm Front recipients' homes compared to homes in England, 2001-02

*Warm Front grants are not sufficiently targeted towards the least energy efficient homes.*



Source: National Audit Office/English House Condition Survey 1996

## Delays in installing measures are a problem, despite improvements

3.23 The Department sets Scheme managers target times from survey to completion of work: 40 working days for insulation measures and 120 days for heating measures. In the first 22 months of the new Scheme - to March 2002 - half of all heating jobs and two-thirds of insulation jobs took longer than the target days. These delays were caused by a lack of installers to carry out the work and the high demand for Warm Front grants: and in the case of privately rented homes because of the delay caused by awaiting landlord's permission for works to proceed. A number of key stakeholders we consulted (see Appendix 4) highlighted delays as an issue.

3.24 The Department and the Scheme managers have employed a number of methods to reduce delays including:

- Training 485 central heating engineers through the Gas and Water Industry Training Organisation scheme, to boost the numbers able to carry out Warm Front work. Of these, 370 are already in employment, working on Warm Front.

- Smoothing the demand for Warm Front throughout the year, by carrying out marketing campaigns for the summer months, to reduce the surge in applications in winter.
- Employing extra contractors to carry out work at peak times, and increasing the number of installers approved to carry out work under Warm Front, and smoothing the flow of work to installers throughout the year.
- Improving Scheme managers' IT systems, which has speeded up the flow of work.

3.25 **Figure 21** shows that over the last 15 months there has not been any sustained improvement in the percentage of either insulation or heating jobs within target times, although there has been some reduction in the delays experienced for insulation jobs since the start of the Scheme. The methods listed above have therefore not yet had a significant impact.

## 21 Numbers of insulation and heating jobs exceeding target completion times

*Over half of all jobs exceed target completion times.*

Year	Quarter	% Heating jobs over target*	% Insulation jobs over target*
2001-02	3rd	54.3	56.7
	4th	55.5	61.5
2002-03	1st	52.3	58.6
	2nd	49.2	65.6
	3rd	51.8	52.6

\* Target times are 120 and 40 working days for heating and insulation respectively, taken from survey date to completion of work.

*Source: Warm Front Scheme managers*

3.26 Some delay may occur because demand for the Scheme outstrips the level of supply possible with the current level of funding. The level of demand can mean that at any one time there can be on average 13 weeks work awaiting installation of insulation measures and on average 17 weeks of work awaiting installation of heating measures<sup>37</sup>. Therefore some jobs may exceed the target times due, in part, to this build up of work. Both Scheme managers seek to manage grant applicants' expectations in this respect whilst also taking the steps detailed in paragraph 3.24 to tackle supply side issues and so minimise delays as far as possible. It is likely, therefore, that some delays may be unavoidable in the long-term.

# Part 4

## Targets and indicators of success

4.1 The Fuel Poverty Strategy launched in November 2001 aims to eliminate fuel poverty by 2016, and as an interim step to eliminate it within vulnerable groups by 2010. Warm Front is a key component of the Strategy. The Strategy expects 2 million households to benefit from Warm Front by 2010. The Strategy's aims are supported by a set of targets:

- The Strategy set a target that "800,000 vulnerable households would be assisted through the Scheme by 2004". The assessment period for this target began with the launch of the new Home Energy Efficiency Scheme in June 2000.
- The Department has complemented this target with a Public Service Agreement (PSA) target "to reduce fuel poverty among vulnerable households by improving the energy efficiency of 600,000 homes between 2001 and 2004".

This section explores the usefulness of these targets as a reporting tool and the accuracy of the reporting towards them. Our key findings are that the targets are not meaningful indicators of the impact of the Warm Front Scheme, and that the Scheme may make less of a contribution towards the elimination of vulnerable fuel poor by 2010 than required.

### The Scheme is on target, but measurement of its impact could be improved

The Department is on track to meet its targets

4.2 The Strategy set a target that 800,000 vulnerable households would be assisted through the Scheme by 2004. In the first 28 months of the Scheme, from June 2000 until September 2002, the Scheme assisted 480,000 households<sup>38</sup>. To meet the overall target therefore 320,000 households need to be assisted in the remaining 18 months of the target period. If the Scheme continues to assist households at a similar rate to that already achieved, the target should be met.

4.3 The PSA target is to reduce fuel poverty among vulnerable households by improving the energy efficiency of 600,000 homes between April 2001 and March 2004. Households count as having been 'assisted' in some way by receiving a grant. The Scheme assisted 303,000 homes in the year to 31st March 2002. Totals of 230,000 and 200,000 are forecast for 2002-03 and 2003-04 respectively. On the basis of these figures the target should be achieved.

### But the targets are not good measures of Warm Front's contribution to the Strategy

4.4 The performance target of the number of households assisted is not, however, a meaningful or reliable indicator of the contribution made by Warm Front to the Strategy's aims. In particular the Scheme's direct contribution to the Strategy cannot be determined because the impact of Warm Front on the *fuel poverty* of households is not assessed or measured.

4.5 Framing the target in the Strategy in terms of numbers of households does not address the reduction of *fuel poverty* achieved in vulnerable households by improving the *energy efficiency* of their homes. Although the PSA target refers directly to reducing fuel poverty, and improving energy efficiency, neither target requires the Department to measure the impact of Warm Front on fuel poverty. Further, the targets do not provide an incentive for the Scheme managers to reach the worst homes or those most in need but instead aim to maximise the numbers of homes helped which is most readily achieved by helping the most accessible households.

4.6 Performance against the targets is measured by including all households assisted regardless of the impact on the energy efficiency of their homes. A grant's impact on the energy efficiency of the home is measured in terms of the home's SAP rating. Around 11 per cent of all households receiving a Warm Front grant in the year ended 31st March 2002, however, saw no SAP improvement in the energy efficiency of their homes. The majority of these homes received energy efficient light bulbs only,

38 380,000 reported by the Department as assisted from April 2001 until September 2002 and around 100,000 were assisted prior to this in the first ten months of the Scheme.

which will result in a potential cost saving of ten pounds a year. The 11 per cent is also part of a larger number of 62,154 households, 20 per cent of total homes assisted in 2001-02, who received only energy efficient light bulbs or draught proofing, which improve energy efficiency, but by a maximum of one SAP point, a potential maximum cost saving of £16 a year.

## Performance against targets may be overstated

4.7 There is also inconsistency in the reporting of the number of households assisted each year between the two Scheme managers. Eaga includes households where the *first main* measure has been installed but the job may not have been completed, whereas TXU includes only those households where all work has been completed. In the year ended 31st March 2002 this led to the inclusion of 33,577 incomplete jobs. In the long run this overstatement will be less important, because jobs included in one year should be excluded from the following year's data. The Department should still meet their target of 600,000 by 2004. However, more consistent reporting would give a more meaningful picture of the assistance that Warm Front is providing and not just a tally of those homes receiving measures.

4.8 The integration of the Warm Front Scheme with the Energy Efficiency Commitment may further complicate determination of the underlying number of households assisted. As shown in Figure 16, energy companies can claim the energy savings from certain insulation measures initially installed under Warm Front, in return for providing funding to the Warm Front Scheme managers. The homes and measures transferred in this way are, however, included in the homes assisted data for both Warm Front and the Energy Efficiency Commitment. Currently this practice accounts for only around three per cent of the total value of Warm Front grants for the year, but if the scale of such transfers increases the Scheme's impact could be significantly overstated.

## Warm Front may make less of a contribution to the Strategy than anticipated or required

4.9 The goal of eliminating fuel poverty for vulnerable households by 2010 is a challenging one. Improving the energy efficiency of homes will help bring people out of fuel poverty, but levels of household income are also important. As the key method of improving the energy efficiency of vulnerable fuel poor households in privately owned homes in England, Warm Front needs to reach at least 1.8million<sup>39</sup> households by 2010.

4.10 Although the Fuel Poverty Strategy expects the Scheme to assist 2 million households by 2010, around 200,000 households each year, the 2010 goal of *eliminating* fuel poverty in vulnerable households may be unrealistic because:

- To meet the 2010 goal, 90 per cent of Warm Front grants would need to reach vulnerable fuel poor households in private homes<sup>40</sup>. Whilst the Department appears to be on target in terms of number assisted, our evidence suggests that as few as 30 per cent of Warm Front grants are received by fuel poor households (Part 2).
- In some cases the measures provided by Warm Front have a minimal effect on energy efficiency and fuel poverty, (Part 3) and even those households who have more substantial measures installed will not necessarily move out of fuel poverty.
- Currently Warm Front is probably reaching more accessible fuel poor households. Households in fuel poverty may become harder to reach as the programme progresses, for example because they live in rural areas (Part 2).
- Property owners may refuse to have measures installed or landlords may not grant permission for their tenants to have work carried out under the Scheme.
- Finally, changing household circumstances mean that fuel poverty may never be eliminated. For example, an assisted household may move out of fuel poverty but then change property and return to fuel poverty. Other factors may have an impact, for example a decline in a household's income levels or an increase in fuel prices. Thus it may be difficult to eliminate fuel poverty completely as acknowledged by the fact that the targets are "as far as reasonably practicable".

4.11 The first annual progress report on the UK Fuel Poverty Strategy, published in March 2003 does show a sizeable reduction in the numbers of fuel poor households in England, from 3.3 million in 1998 to 1.8 million in 2001. In particular it states that for vulnerable groups in England the numbers have reduced from 2.7 million households in 1998 to 1.5 million in 2001. The report points to energy price reductions and increased benefits as the main reasons for the reductions on the basis that 2001 would be too early to see the impact of Warm Front on numbers of fuel poor. These figures, however, are encouraging progress towards the 2010 goal of eliminating fuel poverty in vulnerable groups.

39 This is the number of vulnerable fuel poor households in the private sector estimated in 1998 and used as the basis for Fuel Poverty Strategy calculations. In 1998 there were 3.3 million fuel poor households, of which 2.7 million were vulnerable and of those vulnerable households 1.8 million of these were in private housing.

40 Based on the Strategy estimating that 2 million households will receive a Warm Front grant by 2010 and there being 1.8 million vulnerable fuel poor needing such assistance when the Strategy was launched.

# Appendix 1

## Detailed recommendations

*Our key recommendations are set out in the Executive Summary. Some additional and specific areas for improvement that would increase the effectiveness of the Scheme are set out below.*

### Assessing the impact of Warm Front

- Customer satisfaction surveys are an invaluable source of information on the Warm Front Scheme. The Department should make it a requirement for Scheme managers to do customers satisfaction surveys on a consistent basis - adopting a common questionnaire and giving guidance on the volume of customers to be questioned.
- The Department should put in place a consistent approach to reporting annual results, to be applied by both Scheme managers.

### Eligibility for Warm Front

- The Department should look to provide benefits health checks as part of the Warm Front Scheme, to encourage benefits take-up to help the Scheme reach more of the fuel poor.
- To meet its target of eliminating fuel poverty in England by 2016 the Department should look at ways of addressing fuel poverty in 'non vulnerable' groups, for example those aged under 60, living in private homes, without children under 16, who are currently outside the scope of the Warm Front Scheme.

### Measures offered by the Scheme

- The Department should maximise funds brought in from the Energy Efficiency Commitment to assist those households that need to receive a package of measures above the Warm Front grant maxima or enabling works for current Warm Front measures. However, the measures funded by suppliers under the Energy Efficiency Commitment should be reported as such to ensure the transparency of this arrangement. The Department should give clear guidance to the Scheme managers on the way in which these funds can be used.

- The Department should consider a wider range of heating and insulation measures for 'hard to treat' homes where the current measures are unlikely to ease fuel poverty. The Department should also progress quickly the studies into alternative options for these homes.
- The Department should review the measures available under the Scheme and consider more generally whether more flexibility is needed in the provision/replacement of heating systems/boilers.
- The Department should monitor delays and the causes of delays, and seek to reduce them wherever possible within the funds available to the Scheme.

### Targeting grants effectively

- The Department should take action with the Scheme managers to meet its target to direct around 60 per cent of grants to the over 60s. It should also formalise the arrangements for priority cases on health grounds.
- The Department should direct Scheme managers to distribute the grants on a basis that matches the representation of fuel poor households in the areas they cover. It should give guidance to the Scheme managers on the proportion of grant recipients in rural areas, to enable this group to be adequately covered.

# Appendix 2

## Previous PAC recommendations and response

*In 1998 the National Audit Office published a report (HC556 of 1997-98) on the previous Home Energy Efficiency Scheme. The Committee of Public Accounts took evidence from the then Department of the Environment, Transport and the Regions and produced its own report (45th Report of 1997-98, HC613). This Appendix sets out the recommendations made by the Committee of Public Accounts and the response of the Department and its successors.*

### Public Accounts Committee recommendations

The Department should consider whether more could be done to reach those in greatest need, particularly in the private rented sector and in the poorest households.

The Committee found it surprising that more has not been done to promote those measures which are the most energy efficient.

The Department should do more to measure the energy efficiency and benefits in terms of warmth and comfort delivered by the Scheme.

We are concerned at the reserves which Eaga have already accumulated, which appear well in excess of those needed for Eaga to meet their contractual liabilities and to fund their diversification strategy.

We are concerned that no claw-back provisions were made should Eaga's surplus prove excessive.

### NAO findings

Limited targeting has been introduced with the criteria that around 60 per cent of grants should go to the over 60s. However, more could be done to meet this target. Generally the Scheme still operates on a first come first served basis and does not prioritise those most in need. This point is addressed in detail in the main body of the report (Part 2).

A wider range of measures is available under Warm Front compared to the previous Scheme. However, less efficient options are still available. The Scheme rules do not always mean that the most efficient solution is possible. This point is addressed in detail in the main body of the report (Part 3).

The Department now measures the energy efficiency improvement to each home assisted and customer satisfaction surveys give an indication of the benefits received in terms of warmth. This point is addressed in detail in the main body of the report (Part 2).

The Treasury Minute did not respond to the Committee's concerns over the reserves accumulated by Eaga prior to 1998. Eaga was restructured in 2000 as a limited partnership before competing for the Warm Front contract. Surpluses up to this point had decreased steadily over the previous three years from £336,000 in 1997-98 to £66,000 in 1999-00. However, the reserves that had been accumulated prior to 1998 amounted to £3 million in 1997 of which at least half was unallocated. These unallocated reserves were transferred to the Eaga Partnership Charitable Trust when Eaga was restructured in 2000. Eaga Partnership Charitable Trust is an independent body which funds research related to the alleviation of fuel poverty and increasing public awareness of the benefits of energy efficiency.

Surpluses are made under the new contract but are controlled by a claw-back provision in the contract which has not yet been utilised because profits have not exceeded the level set. No-claw back existed prior to 2000.

## Public Accounts Committee recommendations

The Committee looks to the Department to take steps to ensure that there is genuine competition for Eaga when the contract comes up for renewal in 2001.

We are concerned that the Department would have no share or influence in the distribution of Eaga's assets should they become wound up.

It is important that the Scheme should include sufficient safeguards to ensure that the cost of work done is kept under proper scrutiny and control, and to ensure that the Scheme does not operate to the undue advantage of installers.

We are surprised at the degree of variation between different installers in average costs claimed, sometimes for similar work in the same areas. We are also concerned that the Scheme may encourage installers to claim the grant maximum, regardless of the extent of the work done.

## NAO findings

TXU Warm Front Ltd is a not-for-profit organisation with surveying and installer management contracted out on a commercial basis. Any surplus is returned to the Department or used to install additional measures.

A competition for the position of Scheme manager was run in 1999-00. The competition followed Official Journal of the European Commission rules and led to the appointment of Eaga as Scheme manager for three areas and TXU for the fourth, from a choice of candidates. The Department anticipates a similar competitive process when the contracts come up for renewal in 2005.

Eaga is now a private limited employee-owned company. Assets belong to the company and so would be distributed to the employees in the event of winding up.

TXU Warm Front Ltd, however, is not-for-profit and any fixed assets purchased with Warm Front money belong to the Department. There is no provision for distribution of these assets in the event of winding up. This will need to be addressed in any future contract, however, the fixed assets held by TXU will all be depreciated to zero by 2005.

The Scheme managers have thorough competitive procedures in place for appointing all installers. They follow Official Journal of the European Communities (OJEC) regulations and take both price and quality into consideration when evaluating tenders. Evaluation is based on a points system which is applied to all aspects of the installer's business whether they have worked for Warm Front before or not. In addition, it is no longer possible to be a surveyor *and* an installer under the Scheme.

The Scheme managers run their tenders in different ways but both are subject to open competition.

Eaga appoints installers and the work is allocated on the basis of the prices bid by installers. Work done is then charged to the Scheme at the bid prices. Thus price variations still exist, as a result of the competition route chosen.

TXU harmonise their prices so that all installers, once appointed, operate at the same price.

Installers' claims must match work orders placed by independent surveyors, and thus only work completed can be claimed for.

If the installer considers that the services required differ from that shown in the works order then a variation order in writing must be obtained from the Scheme manager, prior to works being funded.

### Public Accounts Committee recommendations

The Department and Eaga should introduce more competition between installers..., give price greater prominence in the appointment of installers, and allow price to be a key factor in allocating funds and work to installers.

The Department should also investigate claims by local authorities that they can get work done more cheaply than under the Scheme, by use of local competitive tendering.

The Department are now taking action to clarify Eaga's legal powers to challenge or amend unreasonable claims. If uncertainty still remains, the Department should seek to clarify such powers and responsibilities by means of revisions to the governing Statutory Instrument and Eaga's contract.

### NAO findings

Competition between installers is now in place and price is the key factor in the allocation of work by Eaga. TXU have harmonised prices based on tender bids received - bids above these prices are rejected.

The Department considers that competitive tendering in the appointment of installers should ensure that those able to do the work most cheaply (whilst operating to the quality standards expected by the Scheme) are employed on the Scheme.

A framework agreement exists between each installer and the Scheme manager. The agreement is between the Scheme manager and installer, not between the householder and installer as previously. Through this Eaga can now challenge unreasonable claims and require contractors to amend work that is of unsatisfactory quality or require them to pay a financial penalty. Installers can also be removed through provisions in this agreement. Claims without matching work orders or for which the customer has not signed for are not paid.

# Appendix 3

## Methodology

We examined two issues:

- Is Warm Front reaching the vulnerable fuel poor?
- Are the most cost-effective energy saving measures being deployed?

Our overall focus was on Warm Front's effectiveness, reflecting the importance attached to effectiveness in the new Scheme introduced in June 2000. We did not examine the Fuel Poverty Strategy as a whole, but limited our examination to the Scheme's contribution to the Strategy.

Our examination focused on the Warm Front Scheme in England. Warm Front Schemes also operate in Wales, Scotland and Northern Ireland, with different eligibility criteria and different ranges of available measures. We gathered background information about these, but focused our detailed primary research on the England Scheme. Quantitative information in this report relates to England except where otherwise stated. We expect that our findings may be of interest to the schemes in the other parts of the UK, but they are not intended to apply directly to them.

As part of our work, we followed up the issues raised in the 1998 Treasury Minute resulting from the Committee of Public Accounts report on the first Home Energy Efficiency Scheme (which preceded Warm Front). Our findings related to this are in Appendix 2.

In undertaking the examination, we:

- interviewed senior staff from the Department for Environment, Food and Rural Affairs;
- worked closely with the consultant carrying out the Department's own review of Warm Front;
- interviewed a range of key staff of the Scheme managers (Eaga Partnership and TXU Warm Front Ltd) and their sub-contractors (e.g. National Energy Services);
- observed the operation of one of the Scheme manager's call-centres and attended a meeting of its referral team;
- gathered and analysed quantitative data from the Scheme managers on their operations;
- interviewed White Young Green, the quality assurance firm employed by the Department to audit the Scheme managers' operations;
- accompanied Warm Front property surveyors on a range of survey visits in the Birmingham, Newark, Portsmouth and Medway areas;
- gathered and analysed information from the Building Research Establishment on the energy efficiency of the measures supplied by Warm Front;
- held two focus groups in Birmingham and Newark, with participation by a range of stakeholders (including the local authorities, voluntary sector groups, residents' associations, the Scheme managers' local representatives and the local Energy Efficiency Advice Centres), to discuss the Scheme's effectiveness at a local level;
- consulted a range of third parties on their views of the Warm Front Scheme, including the Fuel Poverty Advisory Group, the Energy Saving Trust, National Energy Action (NEA), the Home Energy Conservation Act Forum (which represents local authority officers responsible for implementing the Home Energy Conservation Act), Age Concern, the managers of the Warm Zones initiative and Tom Sefton of the London School of Economics (a fuel poverty expert);
- consulted energy suppliers, Transco and the Energy Efficiency Partnership insulation industry strategy group (as representatives of those third parties with a commercial interest in Warm Front), and the electricity and gas market regulator Ofgem; and
- consulted other government departments (the Department for Work and Pensions and Inland Revenue) on Warm Front's passport benefits system and the effects of forthcoming changes to the tax credits and benefits system.

Details of the various stakeholders' views can be found in Appendix 4.

# Appendix 4

## Key stakeholder views

### Key to stakeholder views

M - Scheme managers	V - voluntary sector workers
R - referrals advisers (employed by Scheme managers)	E - Energy Efficiency Advice Centres
S - installers/surveyors	O - representatives from other schemes (inc Warm Zones)
LA - local authority	F - Fuel Poverty Advisory Group
H - healthcare workers	N - national groups (e.g. Energy Saving Trust)

View	Further detail	Expressed by
<b>Stakeholders' overall views of the Scheme</b>		
1.1 People who have had Warm Front grants very much appreciate them	<p>There are differing views on whether Warm Front recipients tend to reduce their fuel bills, or take the benefit in increased warmth and comfort, less damp and condensation.</p> <p>Some Warm Front measures are very noticeable in their effect:</p> <p><i>'I've had a few people who have had the cavity wall and they are really chuffed with it, because you more or less notice the difference straight away.'</i></p> <p>The work also helps people to feel more secure and cared for in their homes:</p> <p><i>'This particular lass who I'm thinking of, she felt very insecure because she was so poor, suddenly there was someone there to help her and they took away her insecurity.'</i></p>	M, R, S, LA, H, V, E
1.2 The Scheme's target (total number of households) is unhelpful	<p>The target encourages the Scheme managers to focus on total numbers helped, whether or not the households' fuel poverty status has changed:</p> <p><i>'They can give out millions of energy efficient light bulbs and meet their targets. The government should understand what it is they (the government) are trying to do.'</i></p>	LA, H, V, E, F, N
1.3 The Scheme needs more resources to meet its target	<p><i>'It is the (Fuel Poverty Advisory) Group's judgement that an increase in current programmes of at least 50% is needed.'</i></p>	F, N
1.4 The Scheme should be based on an assessment of the house as well as the householder	<p>The shifting nature of fuel poverty means that grants are given to households who then move on elsewhere, but are still fuel poor:</p> <p><i>'The problem is how you judge if someone is eligible. (Warm Front) should do a SAP rating on the house - people drift in and out of fuel poverty, whereas a house needs to be brought up to standard.'</i></p>	LA, E, F, N
1.5 Once a household in need is identified, all the work that is necessary should be carried out at once	<p><i>'You need to maximise your ability to spend in a property, (and) do it the first time because you can't go back.'</i></p> <p><i>'You need information about the person and the house to get the full picture.'</i></p>	LA, F, M, N

View	Further detail	Expressed by
<b>Stakeholders' overall views of the Scheme - continued</b>		
1.6 There are serious delays in carrying out the work, especially in winter	<p>Demand is seasonal, dropping off during the summer and increasing in winter, exacerbating delays:</p> <p><i>'The industry is running close to capacity for cavity wall and loft insulation in winter.'</i></p> <p>Day-to-day workload management is difficult for the installers because they do not receive a smooth flow of jobs from the Scheme managers.</p>	S, LA, F
<b>Stakeholders' views of the Scheme's ability to reach the fuel poor</b>		
2.1 Most people hear about it through word-of-mouth	<p>People trust their friends and neighbours more than marketing materials:</p> <p><i>'A significant number of people are functionally illiterate; leaflets don't always work.'</i></p> <p><i>'Pensioners might feel coy to have strangers in their houses. They are nervous about people coming into their homes.'</i></p> <p><i>'Word of mouth is the best way of building confidence - it is slower, but more effective.'</i></p>	M, R, S, LA, H, V, E
2.2 There is generally low awareness of the Warm Front Scheme's existence	<p>There is anecdotal survey evidence of 90% no awareness in the Warm Front target group.</p> <p>Reaching people in work is harder.</p> <p>Owner-occupiers may assume that it cannot be for them.</p>	S, LA, H, V, E
2.3 Even when people know about the Scheme, they may think 'Where's the catch?'	<p>Many people think there is 'no such thing as a free lunch':</p> <p><i>'I think one of the biggest barriers, especially for the elderly, is it's too good to be true - (even) if they do believe it they just do not pick up that phone.'</i></p>	M, R, S, LA, H, V, E
2.4 Sometimes it is difficult to find out more	<p>It can be difficult to get through to the Warm Front call centres.</p> <p>The call centre staff may give varying messages about the Scheme.</p>	LA, H, V, E
2.5 People who do not take up benefits are excluded	<p>Many people may not see claiming benefits as worthwhile:</p> <p><i>'It's a two or three-hour form if you know what you are doing and they are only going to be getting £1 a week. They don't apply for benefit which maybe they're entitled to.'</i></p>	LA, H, V, E
2.6 Some fuel poor people are not eligible for the Scheme	<p>Students and adults with no children are excluded:</p> <p><i>'You could have someone that lost their job 10 years ago and has found it difficult to get re-employment, they are on Income Support but they are under 60, therefore they are not eligible.'</i></p> <p>People in private rented accommodation may be effectively excluded because they cannot get the landlord's permission for the work.</p> <p><i>'Warm Front is not for people in fuel poverty, it's basically for those on benefits - what does the government want to do with it, it's unclear?'</i></p>	LA, H, V, S, E

View	Further detail	Expressed by
<b>Stakeholders' views of the Scheme's ability to reach the fuel poor - <i>continued</i></b>		
2.7 Some people who are not fuel poor claim, although they could afford to do the work themselves	<p>The means test is a crucial factor:</p> <p><i>'Anybody on a means-tested benefit is OK, but some of the disability benefits..some of these people could afford to do it themselves.'</i></p> <p><i>'(My neighbour) is loaded and his wife's on Attendance Allowance, so he got the loft insulation and the light bulbs and some draught proofing..He could have afforded to do that himself.'</i></p> <p><i>'We should direct the scheme to those who are struggling - perhaps set a family income target as a test of resources.'</i></p>	S, LA, H, V, E, O, F, N
2.8 Near-benefit pensioners often miss out	<p>They may have just slightly too much income to qualify for benefits (and therefore for Warm Front):</p> <p><i>'A tiny personal pension can just take them over the limit.'</i></p> <p><i>'A lot of old people won't take up benefits.'</i></p> <p><i>'There are lots of people who are probably just 50 pence better off than someone down the road, and yet they don't qualify.'</i></p>	S, LA, H, V, F, N
<b>Stakeholders' views of the impact of the Scheme</b>		
3.1 Grants sometimes cannot provide everything that is needed, because of the maximum limit	<p>Clients sometimes have to choose between heating and insulation, but heating installation without insulation should not be permitted:</p> <p><i>'People reject insulation because they want to sort out central heating and they are worried the grant money will not cover both.'</i></p> <p>It may not be possible to take the householder out of fuel poverty with the money available. Perhaps average grants (as with Warm Deal Scotland) rather than grant maxima should be used.</p>	R, S, LA, H, V, E, O, F, N
3.2 The range of measures offered is not well suited to some types of fuel poor households	<p>The scheme isn't flexible enough to cope with anything slightly out-of-the-ordinary.</p> <p>Warm Front won't repair poorly-functioning (but not completely broken) existing boilers:</p> <p><i>'When the boiler works 'to some degree' and Warm Front go in and do a small measure in that house..next week that boiler could break down, they have no heating at all and there is no redress.'</i></p> <p>Warm Front does not do fuel swaps but like-for-like refits.</p> <p><i>'Replacing a back boiler with another back boiler is ridiculous.'</i></p> <p>Warm Front does not offer oil central heating (a potential solution for houses off the gas network).</p> <p><i>'New or expanded programmes are needed for hard to treat homes, especially those without cavity walls and those without access to mains gas.'</i></p>	S, LA, H, V, E, F, N

View	Further detail	Expressed by
<b>Stakeholders' views of the impact of the Scheme - <i>continued</i></b>		
3.3 Education on how to use central heating (and follow-up to check that it is being used correctly) is important	The majority of people in this country still don't feel that they control the costs of heating in their home. <i>'They see it as something that comes through the door in a bill and their behaviour or the way they are running their household doesn't affect it.'</i>  <i>'They will open the window rather than turn the thermostat down.'</i>	S, LA, H, V, E
3.4 There are some recurring complaints about central heating installation	<i>'They leave exposed pipes, which looks messy and could be dangerous'.</i>	LA, H, V, E, N
3.5 The 'one-off' nature of the Scheme may mean that past grant recipients do not get the (better) measures now available	Past recipients who have had e.g. 4 inches of loft insulation would not now have it topped up to 8 inches (current standard).  Referral contacts are therefore reluctant to refer 'borderline' applicants for fear of losing their 'one chance':  <i>'I knew a couple who are both severely disabled and had a grant for insulation...but now they need heating and they can't get it because they've already had a grant.'</i>	LA, H, V, E
3.6 A 'fast-track' or some other form of prioritisation is needed	There is no fast-track for referrals in urgent cases:  <i>'I had a case where there was a couple in their 90s and it was going to be six months before they got help, so their son sold his car so he could pay. They had no heating and no hot water - there should be some way of prioritising.'</i>  People who are 'bed-blocking' in hospital could be sent home if their home was warm.	LA, H, V, E, M
3.7 Rural areas receive disproportionately fewer Warm Front grants and have specific issues which need to be addressed	The work is not spread evenly geographically, funds tend to be directed towards the easiest options.  <i>'It is lucky that it is harder to get to (rural areas), otherwise we would have lots (of potential applicants) and not be able to help them.'</i>  Those still entitled to coal may refuse to move off solid fuel because it is free (for ex-mining families).  <i>'There are hardly any schemes targeting rural areas.'</i>	LA, H, V, E, F,R
3.8 Integration with other schemes is not always effective, but this is difficult	Sometimes the installation of Warm Front measures is not practically integrated with what else is going on (e.g. rewiring done by the council):  <i>'We know of properties that Warm Front have put measures into that the council are going to demolish.'</i>  However, comprehensive integration would be complex and expensive.	S, LA, H, V, E, O