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Gweinidog yr Amgylchedd, Ynni a Materion Gwledig
Minister for Environment, Energy and Rural Affairs



Llywodraeth Cymru
Welsh Government

Mike Hedges AM
Chair of Climate Change, Rural Affairs and Environment Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

30 January 2020

Dear Mike,

Thank you for inviting myself and my Cabinet colleague Julie James AM, Minister for Housing and Local Government, to attend committee on 13 February to give evidence to support your inquiry into fuel poverty in Wales.

Statutory targets for eradicating fuel poverty in Wales were first published in 2003 in the Fuel Poverty Commitment for Wales. These targets were restated in the Fuel Poverty Strategy 2010. The target was to eradicate fuel poverty amongst vulnerable homes by 2010, social housing by 2012 and all homes by 2018, where reasonably practicable. Whilst these targets have not been achieved, headline estimates of fuel poverty published in May and the detailed analysis published in August suggests the level of fuel poverty in Wales has halved since 2008.

Nonetheless, too many people in Wales continue to struggle to meet the cost of maintaining a satisfactory temperature in their home and too many people living on lower incomes are excluded from securing better deals from the current commercialised energy market. This has a disproportionate, negative impact on lower income households living in less energy efficient homes.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Since 2000, the Welsh Government has invested in homes where people have been struggling to meet the cost of their home energy needs. Under the Home Energy Efficiency Scheme operating between 2001 and 2009, more than 108,600¹ homes benefitted from energy efficiency measures. Investment has continued under the Warm Homes Programme.

As at the end of March 2019, investment of more than £327m, which includes investment from European and UK Government Schemes such as the Energy Company Obligation (ECO), has been delivered through the Warm Homes Programme. The Nest and Arbed Schemes have improved the energy efficiency of more than 55,000 homes in Wales. More than 129,000 people have received energy efficiency advice through the Warm Homes Programme since 2011.

Alongside the Warm Homes Programme, we have also worked with UK Government initiatives such as the ECO scheme and the Fuel Poor Network Extension Scheme (FPNES) to reduce fuel poverty in Wales. The UK Government reports, as of June 2019², an estimated 100,000 homes in Wales have benefitted from 133,000 energy efficiency measures installed under the ECO scheme since 2013. We have also invested in improving the lives of people living in social housing. We have provided around £108m annually to help social landlords ensure their homes meet the requirements of the Welsh Housing Quality Standard (WHQS), which includes improvements to energy efficiency. The £108m is split between the eleven Local Housing Authorities who have retained their council housing, and ten social landlords established to assume responsibility for council housing.

In Wales we do not hold all of the levers which influence the factors contributing to fuel poverty. For example, although we have taken action as a Government to increase people's incomes, the UK Government's policy of austerity has depressed household incomes. Likewise, the UK energy market is regulated by Ofgem and policy is driven by the UK Government. In working towards our goal of eradicating fuel poverty as far as reasonably practicable, we have focussed on the areas where we have the greatest ability to influence:

- Helping people improve the energy efficiency of their homes through advice and by installing energy efficiency improvements; and
- Helping people make more informed decisions on energy to lower their bills.

The Welsh Government knows warmer homes keep people healthier, improves their physical and mental wellbeing together with their quality of life. Improving the energy efficiency of people's homes not only reduces domestic fuel bills, but also contributes to our wider goal of decarbonisation. Our low carbon delivery plan *Prosperity for All: A Low Carbon Wales* outlines how more energy efficient homes can help to tackle the climate emergency. In July 2019 the Ministerial Advisory Group on the Decarbonisation of Housing submitted its independent report on decarbonising existing homes, which included recommendations on improving energy efficiency. *Better Homes, Better Wales, Better World* noted our 1.4 million homes are responsible for 27% of all energy consumed and 15% of all demand-side Green House Gas Emissions.

¹ Tackling Fuel poverty Strategy Wales 2010

² BEIS Energy Company Obligation statistics dated

In your letter of 18 December, you asked specific questions in relation to our efforts to tackle fuel poverty in Wales and I will now address these questions in turn.

How the Welsh Government measures fuel poverty and whether the methodology has changed since the 2008 fuel poverty estimates were produced. If the methodology has changed, for an explanation of the change.

A household is regarded as being in fuel poverty if they are unable to keep their home warm at a reasonable cost. In Wales, a household is measured as being in fuel poverty if they have to spend more than 10% of their income on maintaining a satisfactory heating regime, as recommended by the World Health Organisation (WHO). This means a minimum indoor temperature of 21 degrees centigrade in living rooms and 18 degrees centigrade in other areas. The total fuel costs for a household are modelled using standard heating regimes which consider how much money the household would be required to spend on fuel costs in order to reach the established standards for comfort. A household spending more than 20% of income is regarded as being in severe fuel poverty. Vulnerable households are defined as those with a person aged 60 years or over, a child or young person under the age of 16 years and/or a person who is disabled or has a long term limiting condition.

A detailed analysis of our fuel poverty estimates for 2018 were published in August 2019. The measures, together with the methodology used to estimate levels of fuel poverty are unchanged from 2008. Some procedures on which fuel poverty estimates are based, such as the Reduced Data Standard Assessment Procedures (RdSAP) used to calculate the energy efficiency of existing homes, were refined between 2008 and 2018. The overall effect on estimated levels of fuel poverty published in 2008 is marginal.

A summary of the method used to calculate the estimates and a detailed methodology report has been produced for users and is available to view at <https://gov.wales/fuel-poverty-estimates-wales-background>

Outline how the Welsh Government monitors the success of the Warm Homes Programme

Since its introduction in 2011, our Warm Homes Programme has been the focus of our efforts to tackle fuel poverty and its success has been measured by the improvement in the energy efficiency rating of the homes benefitting from the schemes. Monitoring by the Welsh Government is ongoing, with annual reports produced by the scheme manager for Nest and soon being introduced for Arbed 3.

Between 2011 and March 2019, more than 37,700 homes benefitted from home energy efficiency measures through the Nest Scheme. Of these homes, 43% were rated Energy Efficiency Performance Certificate (EPC) G before measures were installed, 51% rated EPC F and 6% rated at EPC E. Following the installation of home energy efficiency measures, 27% of homes had improved to an EPC C rating, 53% improved to an EPC D rating and 16% improved to an EPC E rating. The remaining 4%, which were some of the most hard to treat properties, achieved a modest EPC rating of F or G.

EPC Band	Before measures	After measures
Band C		27%
Band D		53%
Band E	6%	16%
Band F	51%	4%
Band G	43%	

Table 1 – EPC improvement reported through Nest Scheme 2011 to March 2019 source Nest Annual Reports

Assessing the expected improvements in home energy efficiency ratings following the installation of home energy efficiency measures, however, does not necessarily result in people being lifted out of fuel poverty. There are a variety of reasons for this. Improved EPC ratings are based on modelled savings based derived from the measures installed. This does not take account of the personal characteristics of the home or the behaviours of the people living in it. People benefitting from measures installed through our Warm Homes Programme are better able to maintain a satisfactory heating regime, although no reduction in the cost of energy used may have been achieved. This may be especially true in homes where self-rationing or self-disconnection has been evident. A more sophisticated monitoring and evaluation framework is required to ensure our programmes deliver real benefits to people who are struggling to meet the cost of energy needed to maintain a satisfactory heating regime.

Outline how the Welsh Government plans to address the vulnerability of private-rented sector households to fuel poverty

Across all tenures in Wales, the average energy efficiency rating has improved from a band E in 2008 to Band D in 2017-18. Homes built since 2002 have an average SAP rating of 73 compared with an average SAP of 53 for older homes built before 1919. More than 40% of privately rented homes in Wales were built before 1919³. Households in the Private Rented Sector (PRS) are more likely to be fuel poor, with 20% of these households living in fuel poverty⁴.

Minimum Energy Efficiency Standards (MEES) imposed on the PRS are set by Regulation by the UK Government. The MEES Regulations are enforced by local authorities, who have a range of powers to check and ensure compliance. In Wales, this function is performed by Rent Smart Wales. The Regulations mean since 1 April 2018, private landlords may not let domestic properties on new tenancies to new or existing tenants if the EPC rating is F or G (unless an exemption applies). From 1 April 2020 the prohibition on letting EPC F and G properties will extend to all relevant properties, even where there has been no change in tenancy.

The UK Government has made provision for an exemption within the Regulations if the property cannot be improved to an EPC E for £3,500 or less. In such cases, it is recommended landlords make all the improvements which can be made up to this amount, then register an 'all improvements made' exemption. The exemption is applied for five years, after which time landlords are required to make further efforts to achieve the EPC E rating, or apply for a further exemption.

In Wales, tenants of homes in the PRS, which now accounts for 15% of housing in Wales⁵, have been eligible to apply for home energy efficiency measures under the Warm Homes Programme Nest Scheme. A maximum of three properties under the ownership of a landlord may benefit from improvements under the scheme, although permission can be granted by the Welsh Government for more than three properties to be improved where there is a legitimate case for doing so.

³ Welsh Housing Conditions Survey published December 2018

⁴ Fuel Poverty estimates Wales 2018

⁵ Welsh Housing Conditions Survey published December 2018

Support for homes in the PRS was considered in the Welsh Government's 2016 public consultation in relation to the Nest Scheme. Most respondents generally accepted the principle private landlords should be responsible for installing energy efficiency measures in their properties, but accepted removing grant support under the scheme was not appropriate at the time due to the current lack of alternative support mechanisms.

The majority of respondents felt Home Improvement Loans did not provide a sufficient alternative on their own due to the lack of incentives to ensure landlords take action in this area. The policy position adopted in 2016 was to maintain the eligibility of homes in the PRS providing landlords were registered with Rent Smart Wales.

Continued support to tenants in the PRS also supports our efforts to advance Equality of Opportunity. Evidence from England⁶ indicates across all socio-economic groups and all regions, White British households were less likely to rent from a private landlord than those from all other ethnic groups combined. Black people are the most overrepresented in the PRS. Results from the National Survey for Wales support reflects this also. In 2018-19, 49% of people with self-declared non-white ethnicity lived in an owner occupied home, compared with 74% of people from a white ethnic group. People of non-white ethnicity are over represented in the PRS, with 32% living in private rented accommodation, compared with 13% of people from a white ethnic group.

Evidence from the latest Welsh Housing Conditions Survey published in December 2018 suggests homes in the PRS remain the oldest and least thermally efficient homes in Wales. There is, therefore, a compelling argument for the Welsh Government to continue to support the delivery of home energy efficiency improvements in the PRS through the Warm Homes Programme. This will be considered further as proposals are brought forward about how the current Warm Homes Programme can be further improved in future years.

Explain how the three Arbed schemes have differed from one another

The Arbed 1 Scheme (2010 – 2012) was developed to stimulate the installation of domestic energy efficiency and renewable energy measures to improve the housing stock, increase economic investment in the low carbon market and assist in cutting carbon emissions. Funding was made available and administered by Welsh Government directly to Registered Social Landlords (RSL) and local authorities (LA) in Wales in order to improve social housing and owner occupier homes within their areas. In addition to Welsh Government funding, Arbed 1 was designed to secure additional funding from UK Government, local authorities and RSLs to maximise the benefits to the communities involved.

The aims and objectives of the Arbed 2 Scheme (2012 – 2015) remained broadly consistent with Arbed 1. In addition to Welsh Government, UK Government and local funding, Arbed 2 also benefitted from funding from the European Regional Development Fund of some £33m. Unlike Arbed 1, the scheme was delivered by two scheme managers under contract to the Welsh Government, being Melin Homes in south Wales and Willmott Dixon in north Wales.

The Arbed 2 Local Authority Partnership Scheme (2015-2018) was introduced as interim arrangements to extend the area based scheme until new arrangements could be put in place. It relied on grant funding being made available to local authorities to develop local energy efficiency schemes in their areas.

⁶ <https://www.ethnicity-facts-figures.service.gov.uk/housing>

In May 2018, the contract to deliver Arbed 3 was awarded to Arbed am Byth (AaB), a joint venture between the Energy Savings Trust and Everwarm. The initial three year contract term with AaB ends March 2021, with an option to extend for up to a further two years. The Arbed 3 Scheme’s primary objective is improving the energy efficiency of properties in areas where people may be at risk of living in fuel poverty. As with Arbed 2, the scheme attracts European Regional Development funding, Welsh Government and UK Government funding through schemes such as the Energy Company Obligation Scheme and Fuel Pipe Network Extension Scheme, which is designed to connect homes to the gas network.

Provide historic spend data for its fuel poverty programmes

Since its inception and as at the end of March 2019, the direct investment made by the Welsh Government in the Warm Homes Programme, including European Structural funds of £33m for Arbed 2, is estimated at £258m. This comprises £150m for Nest and £108m for Arbed. Through the Warm Homes Programme, investment sourced through the Energy Company Obligation is £69m. This comprises £15m through Nest and £54m through Arbed. Total Investment delivered through Warm Homes Programme is £327m to March 2019, £164.5m through Nest and £162.5m through Arbed. This investment has improved the energy efficiency of more than 55,000 homes in Wales.

Scheme	Year	Funding	Homes Improved
Arbed 1	2010-2012	£68.01m	7,585
Nest 1	2011-2018	£148.25m	33,916
Arbed 2	2012-2015	£65.44m	6,535
Arbed 2 LA Partnership	2015-2018	£28.4m	3,061
Nest 2 (to March 2019)	2018 - 2021	£15.9m	3,817
Arbed 3 (to March 2019)	2018 - 2021	£1.2m	145

Table 2 – Breakdown of expenditure – Warm Homes Programme 2010-2019

Explain why there has been an under-spend for Arbed 3 so far, as highlighted by the report of the Wales Audit Office.

The current contract to deliver Arbed 3 was awarded in May 2018 to a newly formed scheme management organisation. Following a prolonged mobilisation period, which had the effect of depressing activity in the first year of the contract, additional delivery challenges had been identified during mobilisation. Whilst AaB has sought to work with Local Authorities to identify potential clusters of properties which would benefit from improvement, much of the data held both publicly and by Local Authorities was not of sufficient quality to support the development of local area based projects. In addition, with more than 150,000 homes in Wales receiving measures through the Warm Homes Programme and ECO in the previous decade, identifying large clusters of homes suitable for an area-based scheme has been increasingly challenging. As a consequence, more preparatory work and data analysis has been required to develop the Arbed 3 programme of work.

The Arbed 3 delivery in 2019/20 has improved and Welsh Government has utilised flexibility in other capital budgets to ensure the under-spend in 2018/19 can be recovered in 2019/20 and 2020/21. There is the potential scope to increase the numbers of properties benefitting from home energy efficiency measures should additional funding become available.

Next steps

This month, I expect to publish a new draft plan to tackle fuel poverty in Wales for public consultation, setting out how we can further reduce the number of people living on a lower income and struggling to meet the cost of a satisfactory heating regime. The plan has been informed by the discussions I have held over the past twelve months with key stakeholders working to tackle fuel poverty and the Ministerial round table I hosted in June.

The actions I will be proposing have also been informed by the landscape review into fuel poverty published by the Wales Audit Office in October. I am looking forward to the results emerging from the work of this Committee, which I trust will shed further light on how best we can remove the blight of fuel poverty from our society once and for all.

A handwritten signature in black ink that reads "Lesley Griffiths". The signature is written in a cursive style with a large, sweeping 'L' and 'G'.

Lesley Griffiths AM
Minister for Environment, Energy and Rural Affairs