



**intergenerational
foundation**

Fairness for Future Generations

A response from the Intergenerational Foundation to the public consultation on a new fuel poverty strategy for England

Who we are...

The Intergenerational Foundation (www.if.org.uk) is a think tank which researches fairness between the generations in the UK, in order to protect the interests of younger and future generations, who are at risk of being ignored by current policy-makers.

Our response...

The Intergenerational Foundation (IF) is concerned about the problem of fuel poverty across the whole of society and is pleased that the government is taking such proactive measures to address it. However, as an organisation which campaigns for the rights of younger and future generations, IF is alarmed to note that the new fuel poverty strategy almost completely ignores the widely voiced criticisms of the Winter Fuel Payments scheme, when – in terms of cost – this scheme represents one of the most significant allocations of public resources for paying fuel costs.

Why should Winter Fuel Payments be abolished?

Despite its extremely high cost – currently around £2.2 billion per year – there is little evidence to suggest that Winter Fuel Payments are effective in combating fuel poverty. IF believes that this scheme ought to be abolished as part of the government's new fuel poverty strategy, for the following reasons:

1. Ineffectiveness

Winter Fuel Payments are targeted at the wrong groups of people: they are given to all pensioners even though just 12% of pensioners live in fuel poverty, and most people who live in fuel poverty are not pensioners. This flaw in the scheme's design was actually acknowledged by an anti-fuel poverty charity National Energy Action when they gave evidence to the House of Commons select committee on Energy Inefficiency and Fuel Poverty in 2009:

"The universal nature of the payment means that millions of households, who are comparatively affluent and far removed from fuel poverty benefit from the payment. In addition there is clearly a strong argument that this massive funding level would have been better utilised on heating and insulation programmes."

National Energy Action judged Winter Fuel Payments “an extremely poor return for such an investment” as they only removed 100,000 households from fuel poverty.¹ Given that so many households that receive Winter Fuel Payments do not actually live in fuel poverty, it should come as no surprise that some estimates suggest as little as 12% of the total money which the scheme distributes actually ends up being spent on fuel.² It is also worth pointing out that because pensioners receive Winter Fuel Payments tax-free, they are worth more to higher-income households who pay higher marginal rates of tax, making them socially regressive.

Data on the profile of households which suffer from fuel poverty confirm that pensioner households are not affected disproportionately by the problem (Fig.1).

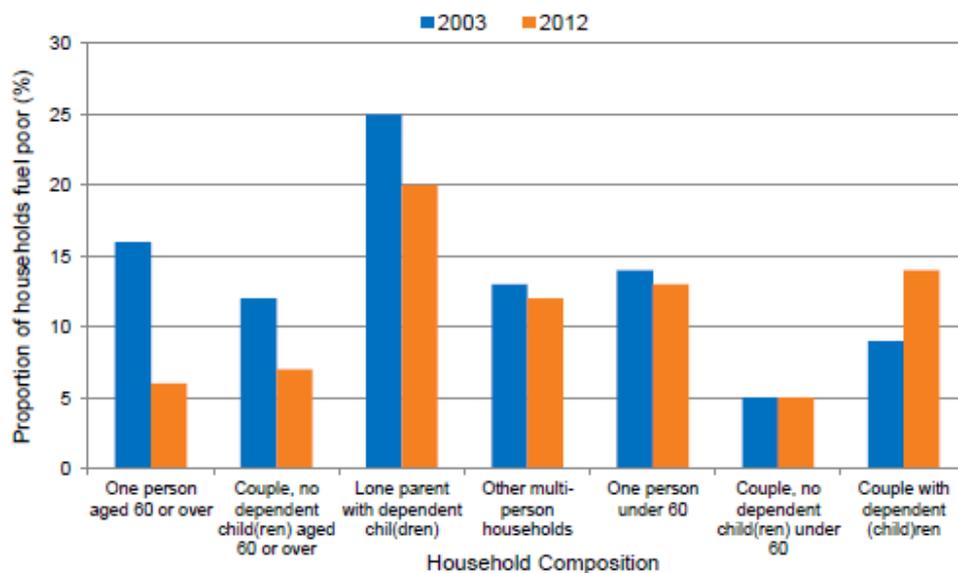


Fig.1 Level of fuel poverty affecting different types of households in England, 2003 and 2012³

Although households aged over 60 have seen a fall in their levels of fuel poverty during the period when Winter Fuel Payments have been in use, the Department for Energy and Climate Change attributes this more to rising income levels generally among this age group (particularly because people are working for longer), rather than government cash transfers. If addressing fuel poverty is really the main aim of the scheme, it seems extraordinary that none of the money flows towards the types of households which are worst-affected by fuel poverty, as indicated by Fig.1.

¹House of Commons Environment, Food and Rural Affairs Committee (2009) *Energy Efficiency and Fuel Poverty: Third Report of Session 2008–09* London: House of Commons

²Cawston, T. et al (2011) *Old and Broke: The Long-Term Outlook for the UK's Public Finances* London: Reform

³Department of Energy and Climate Change (2014) *Annual Fuel Poverty Statistics Report, 2014* London: Department of Energy and Climate Change

2. Unfairness

Although it is often perceived to be a problem which disproportionately affects older households, the most recent edition of the government's *Annual Fuel Poverty Statistics Report* makes it clear that fuel poverty actually affects a larger share of the youngest households, rather than older ones (Fig.2).

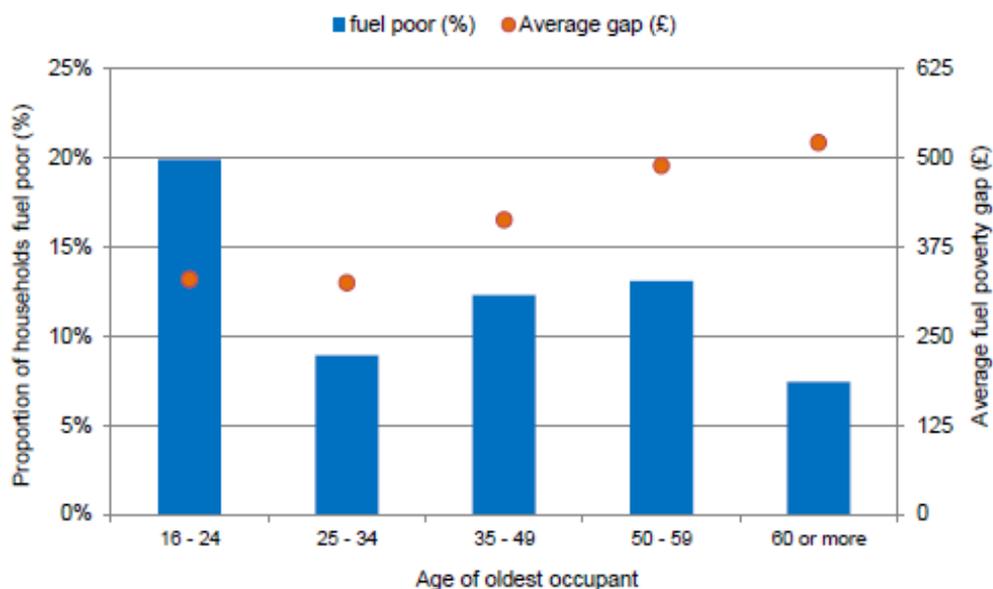


Fig.2 Fuel poverty and average fuel poverty gap by age of oldest household occupant, 2012⁴

The commentary which accompanies Fig.2 in the report shows that young people often become trapped in fuel poverty because of inadequate living arrangements, whereas the fact that older people are more likely to be owner-occupiers makes them less susceptible:

“This increased rate of being fuel poor in the under 25 year old group is likely to be part due to their lower average earnings, and part due to the fact that the majority of this age group (over two-thirds) live in privately rented accommodation, which tends to be less energy efficient and therefore often leads to higher fuel costs. In contrast, over three-quarters of the over 60 year old age group own the property they live in, often resulting in lower housing costs, and in turn, higher disposable incomes compared to all other age groups.”⁵

This makes it seem especially unfair that Winter Fuel Payments, which are funded largely by younger taxpayers, are still given to all pensioner households regardless of need. Cold Weather Payments (see below) are a much fairer and more effective scheme because they are both means-based and needs-based, rather than being given to all members of a particular age group.

⁴ Ibid.

⁵ Ibid.

3. Redundancy

As the draft fuel poverty strategy acknowledges, there are a range of other government schemes which seek to address fuel poverty, including Cold Weather Payments and the Warm Home Discount. Cold Weather Payments, in particular, are targeted much more effectively at households that are actually likely to need assistance.

Cold Weather Payments are much better designed than Winter Fuel Payments in two important respects. First, they are targeted directly at low-income households of all ages: eligibility is governed by whether the household in question receives Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, or Pension Credit (the means-tested top-up for the state pension which is available to pensioners on low incomes). Secondly, they are not automatic: eligible households only receive Cold Weather Payments when they are "triggered" by the local weather station recording seven consecutive days of below-zero temperatures in their postcode. When this happens, all eligible households receive a one-off payment of £25 which is intended to defray the cost of turning the heating up, but they do not receive any further payments unless the temperature remains below zero during each subsequent week, so the amount of assistance they receive relates very closely to how cold it is.

As it is much better targeted, the Cold Weather Payments scheme has far lower costs than Winter Fuel Payments, even during years when the weather is relatively severe. During the winter of 2012/13, just £146 million worth of claims were disbursed to eligible households, and even during the much colder winter of 2010/11 the scheme cost only £435 million, which was still less than a quarter of the amount spent on Winter Fuel Payments that year.⁶ Given that this scheme already exists, low-income pensioners need not lose out in receiving help with their heating costs during very cold weather, even if Winter Fuel Payments were abolished completely.

It is also worth pointing out that there is a range of government initiatives which aim to improve the energy efficiency of peoples' homes, which is more efficient and considerably better for the environment than providing cash fuel subsidies. In order to meet their energy efficiency targets set by government, over recent years most of the major energy providers have been required to provide upgrades, such as more efficient boilers and roof insulation, free of charge to people on benefits, including those receiving pension credit. The government has also operated a scheme called the "Green New Deal", which provides subsidies for people who aren't welfare-recipients to improve the energy efficiency of their homes. A certain amount of the work has been done already, but clearly a one-off campaign to improve the energy efficiency of pensioners' homes would be a much more effective long-term method of lowering their heating costs during the winter than giving them fuel subsidies every year.

⁶Kennedy, S. (2013) *Cold Weather Payments for winter 2012/13* London: House of Commons Library

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For more information about the Intergenerational Foundation and its work, please visit www.if.org.uk or contact Liz Emerson, Co-Founder at liz@intergenerational.org.uk.