

## Memorandum to the House of Commons Energy and Climate Change Committee on fuel poverty, February 2010

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve outcomes for low earners by delivering change in areas where this income group is currently disadvantaged. We do this by:

- undertaking research and economic analysis to understand the challenges facing low earners
- developing practical and effective policy proposals
- engaging with policy makers and stakeholders to influence decision-making and bring about change

### Summary

- Low earners are too rich to qualify for any state assistance with energy costs yet often too poor to comfortably meet rising fuel costs or make their homes energy efficient
- Low earners independence from benefits also means they are largely unable to obtain grants such as Warmfront for improving the energy efficiency of their homes
- The significant numbers of low earners' living in private rental properties means they are likely to live in energy inefficient properties, thus increasing their potential fuel costs
- Essential items such as *housing, fuel and power* and *food & non-alcoholic drinks*, on which households are likely to have little room for manoeuvre, accounts for around 41% of low earner disposable household income on average, compared with 27% among high earner households.
- In 2009, low earner households spent on average 100 per cent of their weekly disposable income leaving little room for rising fuel bills
- Increases in the global price of oil pushed domestic fuel costs to a peak in the latter part of 2008. Typical domestic gas bills for 2008–09 were around 10 per cent up on the previous year in real terms and typical electricity bills increased by around 22 per cent over the same period. Although fuel prices fell slightly during 2009, they remain high by historical standards.

## Introduction

1. 'Low earners' is the term the Foundation uses for the group of people who are 'too rich' to qualify for state support yet often 'too poor' to access the benefits of private markets. At its simplest, we consider the group to be made up of households in income deciles 3, 4 and 5: that is, with gross annual income between £11,650 and £27,150.<sup>i</sup> Around 7.2 million households fall into this category in the UK, equivalent to around 14.0 million adults.
2. The Foundation has found that low earners face distinct challenges across a range of areas because they are:
  - squeezed by the mixed economy
  - particularly exposed in the current economic context
  - at risk of being overlooked by policy makers
3. The Resolution Foundation is therefore pleased to respond to this important and timely inquiry and given our area of expertise our submission will focus on:
  - The definition of households in fuel poverty commonly used – i.e. those households where more than 10% of income has to be spent on fuel for adequate heating

We will make the case that more attention needs to be given to low earners with respect to fuel poverty.

4. Low earners are often too poor to meet rising fuel costs without difficulty or to invest in insulation, but too rich to qualify for assistance with bills or help with energy saving measures because they are not in official fuel poverty or they are not on benefits and therefore don't qualify for help such as Warmfront.
5. Low earners spend a higher proportion of their monthly income on essential expenditure such as food and fuel than higher earners. They also spend 100% of their monthly income leaving them little room to save for a rainy day – or in this case a cold spell. They also lack the safety nets of insurance and savings that higher earners may enjoy. Similarly they do not receive much help from third sector organisations who rightly focus their attention on the very poorest. This does however leave low earners in a vulnerable position - just over eligibility thresholds for any free help yet with relatively low incomes fuel costs can become a real burden.
6. Low earners are similarly squeezed in the housing sector too rich to be a priority for social housing yet often lacking the deposit needed to get on the housing ladder. They therefore often find themselves at the sharp end of the private rental sector in energy inefficient homes. Even low earning homeowners, because of their low income, will struggle to make their homes energy efficient.
7. Above inflation rises in fuel costs in recent years and the particularly cold winter we are experiencing mean that fuel costs can become a real burden for a low-income household.

8. Despite falling back somewhat in 2009 due to subdued global demand, oil prices are expected to settle at a level significantly higher than experienced during the preceding decade. Given the need for additional investment in power supply and carbon reduction, Ofgem has warned that domestic energy prices in the UK will continue to rise with an increasing number of consumers unable to afford adequate levels of gas and electricity.<sup>1</sup>

**Low earners and fuel costs**

9. Table 1 shows that, while low earners spend less of their total household income and disposable household income than the benefit-dependent group on fuel costs, the proportions are still considerable and significantly higher than among higher earners.

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<sup>1</sup> Ofgem press release, "Action needed to ensure Britain's energy supplies remain secure", 3 February 2010

**Table 1: Weekly household expenditure by income group of household: UK 2008<sup>1</sup>**

<i>Averages</i>	As proportion of total expenditure			As proportion of disposable household income		
	Benefit-dependent	Low earners	Higher earners	Benefit-dependent	Low earners	Higher earners
Housing(net), <sup>2</sup> fuel & power	19%	15%	9%	22%	15%	8%
Food & non-alcoholic drinks	17%	14%	9%	20%	14%	8%
Recreation & culture	11%	13%	13%	13%	13%	11%
Transport	9%	12%	15%	11%	12%	12%
Miscellaneous goods & services	7%	7%	8%	8%	7%	6%
Restaurants & hotels	7%	7%	8%	8%	7%	7%
Household goods & services	7%	6%	6%	9%	6%	5%
Clothing & footwear	5%	4%	5%	6%	4%	4%
Communication	3%	3%	2%	4%	3%	2%
Alcoholic drinks, tobacco & narcotics	4%	3%	2%	4%	3%	2%
Health	1%	1%	1%	1%	1%	1%
Education	1%	1%	2%	1%	1%	1%
All expenditure groups	91%	86%	80%	107%	86%	67%
Other expenditure items <sup>3</sup>	9%	14%	20%	11%	14%	17%
<b>Total expenditure</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>118%</b>	<b>100%</b>	<b>84%</b>

Notes:

<sup>1</sup> Based on weighted data and including children's expenditure.

<sup>2</sup> Excluding mortgage interest payments, council tax and Northern Ireland rates.

<sup>3</sup> Including mortgage interest payments and council tax.

Income groups defined on basis of deciles ranked by equivalised disposable income. Unlike Table 11, no further categorisation is made on the basis of the proportion of income received from income-related benefits (see Appendix 3).

Average expenditure within each income group is derived by dividing gross spending recorded in Family Spending for the appropriate income deciles by the relevant numbers of households. Average disposable household income in each income group is derived by dividing gross disposable income recorded in *The effects of taxes and benefits on household income* for the appropriate income deciles and dividing by the relevant numbers of households.

Sources:

ONS, *Family Spending: A report on the 2008 Living Costs and Food Survey*, 14 January 2010, Table 3.2E

ONS, *The effects of taxes and benefits on household income, 2007/08*, 29 July 2009, Table 14

10. Table 2 details weekly spending by each of the three income groups on household and transport fuel. It shows that, in 2008, low earners on average spent a higher proportion of both their total weekly expenditure and their total weekly disposable income on fuel than high earners, making it harder for them to meet increased costs associated with fuel price rises. Domestic fuel expenditure accounted for around 6 per cent of total disposable income in low earner households, compared with 3 per cent in the higher earner group.

**Table 2: Weekly household expenditure on fuel by income group of household: UK 2008<sup>1</sup>**

	As proportion of total expenditure			As proportion of disposable household income		
	Benefit-dependent	Low earners	Higher earners	Benefit-dependent	Low earners	Higher earners
Household fuel	7.8%	4.5%	3.7%	9.2%	5.7%	3.2%
Transport fuel	2.7%	4.6%	4.6%	3.2%	5.8%	3.9%
<b>Total</b>	<b>10.5%</b>	<b>9.1%</b>	<b>8.2%</b>	<b>12.5%</b>	<b>11.5%</b>	<b>7.1%</b>

Notes: <sup>1</sup> Based on weighted data and including children's expenditure.

Disposable income of each income group defined on basis of deciles ranked by unadjusted disposable income. Expenditure of each income group defined on basis of deciles ranked by unadjusted gross income. Average expenditure within each income group is derived by dividing gross spending recorded in Family Spending for the appropriate income deciles by the relevant numbers of households. Average disposable household income in each income group is derived by dividing gross disposable income recorded in The effects of taxes and benefits on household income for the appropriate income deciles and dividing by the relevant numbers of households.

Sources: ONS, *Family Spending: A report on the 2008 Living Costs and Food Survey*, 14 January 2010, Table A.8  
 ONS, *The effects of taxes and benefits on household income, 2007/08*, 29 July 2009, Table 24

11. Table 4 shows how many low earners struggle with fuel costs. While the numbers are less in percentage terms to the benefit-dependent group they are still considerable when you translate these into actual numbers. Approximately 210,000 adults are behind with electricity bills and approximately 190,000 adults are behind with gas bills.

**Table 4: Benefit units behind with household bills by income group: UK 2007-08**

	Benefit-dependent	Low earners	Higher earners	All benefit units
Council tax	5.4%	4.1%	1.6%	3.3%
Electricity bill	5.5%	2.1%	1.0%	2.5%
Water rates/Rates (NI)	6.1%	1.9%	0.8%	2.6%
Gas bill	4.9%	1.8%	0.8%	2.2%
Telephone bill	3.4%	1.5%	0.5%	1.6%
Television/video rental or HP	1.2%	0.3%	0.1%	0.5%
Insurance policies	0.3%	0.1%	0.1%	0.1%
Other HP payments	1.9%	0.8%	0.4%	0.9%
Other fuel bills	0.5%	0.2%	0.1%	0.2%

Notes: Income groups based on gross benefit unit income equalised for unit size and composition. Benefit units in receipt of income-related benefits worth 20 per cent or more of their total income are considered benefit-dependent (see Appendix 3).

Source: DWP, *Family Resources Survey 2007-08*

12. However, despite being less able to cope with fuel price rises than higher earners, low earner households are unlikely to qualify for any form of assistance. Social tariffs provided by energy companies are targeted at the most vulnerable customers – those in fuel poverty, those on benefits and older people. To be considered in fuel poverty, a household must spend at least 10 per cent of its income on domestic fuel. Few low earners households are likely to meet this criterion. However, their nevertheless vulnerable position could be made worse by the fact that the costs associated with social tariffs are likely to be met by energy suppliers' remaining customers.
13. In addition, low earners are less able than benefit-dependent households to reduce their domestic fuel consumption. Grants such as Warm Front and Warm Deal which are designed to help households make their homes more energy efficient are primarily available to benefit recipients rather than low earners. A recent National Audit Office (NAO) review of Warm Front concluded that:

*Applicants are assessed on a 'first come first served' basis, with eligibility based on receipt of benefits used as a proxy for those most likely to be in fuel poverty. Analysis of the English House Condition Survey 2006 indicates that 57 per cent of vulnerable households in fuel poverty do not claim the relevant benefits to qualify for the Scheme. Yet nearly 75 per cent of households who would qualify were not necessarily in fuel poverty.<sup>2</sup>*

14. At the same time, low earners are more likely than benefit-dependent and high earner households to live in energy inefficient homes because of their higher concentration in privately rented accommodation. Chart 1 details the distribution of the housing stock by energy efficiency rating (EER) band, where bands A & B represent the most efficient properties. It shows that around 71 per cent of RSL homes were categorised in Bands C & D in 2007, compared with around 39 per cent of private rented homes. By contrast, around 7 per cent of RSL properties were rated as Bands F & G, compared with around 25 per cent of privately rented homes.

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<sup>2</sup> NAO, The Warm Front Scheme, 4 February 2009

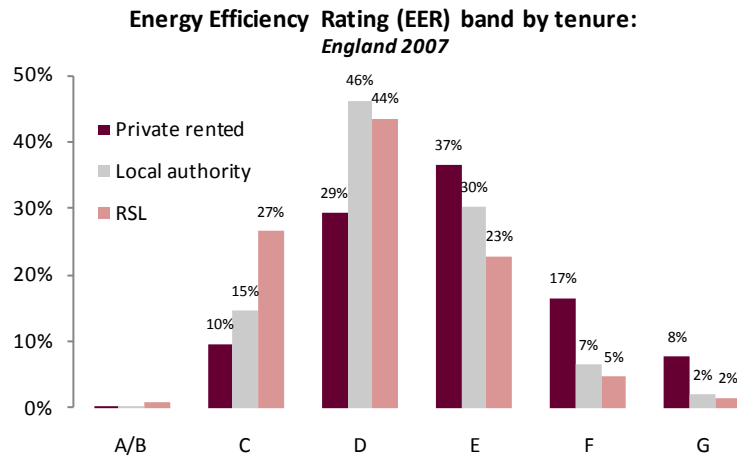


Chart 1: Energy Efficiency Rating band by tenure: England 2007

Source: DCLG, *English House Condition Survey 2007: Headline Report*, Table 9

## Conclusion

15. Low earners are by no means in dire fuel poverty, however, their life on the cliff-edge, just independent of state support yet living on relatively low incomes, makes their fuel costs a real burden and more needs to be done to recognise their vulnerable position. Low earners' fragile economic position also means that any unexpected expenditure or life event can make them vulnerable to falling into benefit dependency. More needs to be done across the board to enable low earners to stay financially independent and a recognition of their position with regards to fuel costs is part of the step towards this.

16. We suggest further examination of the following:

- more help for low earners struggling in energy inefficient homes:
  - a. in the private rental sector this could be in the form of incentives/obligations for landlords
  - b. for low earning homeowners some form of matched funding from the government might prove a helpful route
  - c. an extension of Warmfront type schemes to non-benefit recipients
- In our recent report, *Closer to Crisis*, we also recommended that utility companies show forbearance to low income households. For a low earner this flexibility during the economic downturn will prove as important as forbearance by lenders.

17. If more steps are not taken to help low earners, growing numbers will find themselves in fuel poverty (and therefore cost more by way of help with fuel costs) in the coming years.

*"It costs as much to run any house for one person as it does for two. The gas, the electric is the same, the water, I mean the household bills are the same for one as they are for two...It's very difficult, you know I've got to budget very, very carefully now... As you get*

*older, there are certain things you have to increase on, heating is one thing. Thousands of people like me have arthritis and you daren't be in a cold house."*

**Margaret, 88, a low income householder in Surrey**

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[www.resolutionfoundation.org](http://www.resolutionfoundation.org)

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