



DEPARTMENT FOR BUSINESS, ENERGY & INDUSTRIAL STRATEGY: IMPROVING THE ENERGY PERFORMANCE OF PRIVATELY RENTED HOMES IN ENGLAND AND WALES

JANUARY 2021

INTRODUCTION

We welcome the invitation to respond to BEIS' consultation on Improving the Energy Performance of Privately Rented Homes in England and Wales.

Please note that we consent to public disclosure of this response.

For more information about this response please contact Carl Packman:

c.packman@barrowcadbury.org.uk

ABOUT FAIR BY DESIGN

Fair By Design is dedicated to reshaping essential services, like energy, credit and insurance, so they don't cost more if you're poor. People in poverty pay more for a range of products including energy, through standard variable tariffs; credit, through pay day loans; and insurance, through post codes considered higher risk. This is known as the poverty premium.

We collaborate with industry, government, and regulators to design out the poverty premium.

Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

Fair By Design was conceived by the Joseph Rowntree Foundation and Big Society Capital. The Barrow Cadbury Trust manages the Campaign, and Ascension Ventures manage the Venture Fund.

OUR RESPONSE

Our response to this consultation will focus on the first two questions only.

Question 1: We would welcome views on possible impacts of the policy on the size of the PRS sector, the effect this could have on vulnerable households, and suggestions to mitigate this effect where it does occur, including any evidence.

Question 2: Do you foresee any impacts for protected groups? Please provide evidence to support your answer.

There is a strong link between housing tenure, housing energy efficiency, and living standards. In particular, there is a link between tenants in the private rental sector, poor energy efficiency, and being in poverty.

As this consultation points out, “The comparatively high proportion of energy inefficient homes in the Private Rental Sector (PRS) contributes to disproportionately high levels of PRS households living in fuel poverty at 18%, compared to 8% in the owner occupier sector.”

There is an additional problem not specified in the consultation document: the comparatively high proportion of energy inefficient homes in the PRS contributes to even higher energy costs for those PRS households exposed to energy-based poverty premiums.

Fuel poverty describes the costs of adequately heating a home, related to the proportion of someone’s income it would take to achieve that. The poverty premium, on the other hand, describes some of the ways in which the costs to adequately heat a home can become higher on account of someone’s income.

To put the problem simply: there are a significant number of households today who pay a poverty premium on their household energy (for reasons stated below) in the private rental sector living in energy inefficient homes, which is pushing them into fuel poverty.

Therefore, in order to achieve commitments which policy proposals in this consultation are linked to (set out on p.10 of the consultation, specifically fuel poverty targets), there needs to be strong commitments to removing the poverty premium.

We see efforts to remove the energy-based poverty premium as a key part of meeting fuel poverty targets.

We recommend that BEIS (in collaboration with Ofgem where necessary) sets out a plan to remove the poverty premium from household energy bills and then implements it. This should be blended into existing commitments to meet fuel poverty targets in the 2015 fuel poverty strategy.

Doing so should be seen as complementing the work to improve the energy performance of private rented sector homes in the amended Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015.

The energy-related poverty premium

In 2016, the Personal Finance Research Centre at the University of Bristol identified a number of ways that low income households experience the poverty premium.¹ These premiums are either imposed on low income households, or are a “choice” (e.g. a rational choice to keep some premiums because they help households maintain financial control).

On energy, they describe two main ways that a low income household is exposed to the poverty premium:

Use of fuel prepayment meters (imposed)

Prepayment meters are a more expensive way of paying for domestic fuel compared to paying by monthly direct debit. Even those who switch to the best prepayment meter tariffs pay more. Around a third of low-income households in [the] survey used prepayment meters: 32 per cent for electricity and 27 per cent for gas, with 26 per cent for both ... While most customers had prepayment meters imposed on them directly by suppliers or landlords, some were happy with this because of the control they felt they gave them over how much energy they used and prevented them from using more than they could afford. This suggests a failure within the sector for payment methods which meet the needs of low-income customers without also penalising them financially.

Not switched to the best fuel tariff (imposed and choice)

We consider not switching to be a poverty premium as lower-income households are less likely to switch and higher rates of digital exclusion make it more difficult for them to do so. Three-quarters (73 per cent) of low-income households in our survey had not switched fuel supplier in the last two years, and this was higher still among the digitally excluded (83 per cent). Reasons for not switching included risk aversion and the need to retain tight budgeting control, underpinned by the complex tariff structures within the energy market. Those on prepayment meters, or who pay on receipt of bill are excluded from the best tariffs, even if they chose to switch.

Taking account of, and finding solutions for, low income households exposed to the poverty premium is important for meeting fuel poverty targets. This is because there will be a high degree of crossover between those low income households who are using prepayment meters, or are not switched to the best fuel tariff (in other words, low income households exposed to the poverty premium) and those who live in the PRS, live in energy inefficient housing, and are defined as fuel poor.

Tackling energy inefficient housing among those living in the PRS, at the same time as tackling the poverty premium, should be the most appropriate way to meet fuel poverty targets in the future. Such a move would require a collaborative effort on social and regulatory policy. This is something we would advocate.

¹ <http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf> (pp.5-6)

Regarding impacts on protected groups, Fair By Design recently commissioned the Personal Finance Research Centre at the University of Bristol to carry out a review of evidence mapping exposure to the poverty premium with protected characteristics.²

It is worth noting from their review that they find people from BAME communities, younger people, and those with a disability more likely to live in rented accommodation. Housing tenure made a significant difference to the extent to which households incurred the domestic energy poverty premium. Homeowners were more likely to pay by direct debit, and those in private rental or social housing were most likely to pay by PPM. Homeowners were also the least likely to have stayed with the same supplier.

Our assumption is that there is a significant link between the following for people living in the PRS:

- Energy inefficient housing, and experiencing fuel poverty
- Being exposed to the poverty premium, and
- Protected characteristics.

As a result, we recommend that, BEIS includes the eradication of poverty premium within its future work on fuel poverty.

² Currently unpublished.