

Minimum Income Standards, Fuel Poverty and Vulnerable People

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This paper provides a brief overview of some recent work on minimum income standards (MIS) and its possible use in assessing fuel poverty. There are many problems with the current definition of fuel poverty, not least identifying people in fuel poverty due to the combination of definitions of 'income', 'warm home' and the use of proxies in energy efficiency programmes to target the fuel poor. What would the implications on fuel poverty be if the definition were changed? What benefits would accrue? According to research using MIS data by Richard Moore (2009) the number of households in fuel poverty would increase, but would this actually enable households to be identified more easily and therefore the problem to be more easily, efficiently and cost-effectively addressed?

The purpose of this paper is to consider these questions and suggest what research might be carried out to determine whether a definition change would be advisable.

Minimum Income Standards

The main work on Minimum Income Standards and the concept on which they are based is being done by a team at CRSP, Loughborough University and the Family Budget Unit, University of York, led by Professor Jonathan Bradshaw CBE and funded by JRF. Bradshaw et al have published summary and full reports on their project and developed a website at www.minimumincomestandard.org. The research aims to define what level of income is needed to allow a minimum acceptable standard of living in Britain today. The first results were launched in July 2008, and updated in 2009.

A definition is as follows:

"A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society." (Smith 2008)

The MIS covers 11 types of household, which represent 79% of households in Britain. The minimum incomes are derived from a consultation process which established a necessary minimum budget for each type of household for essential goods and services, i.e. food, clothing, fuel, council tax & water rates, household goods & services, personal goods and services, transport, social and cultural participation, other. These are totalled to give a total less rent (housing costs) and then totalled again to give the MIS in £ per week.

These MISs were compared with the average spending for these items and those receiving various benefits, according to the Household Spending Survey, and against the median incomes for the various household groups. In general, results showed that pensioners, especially pensioner couple, were not significantly disadvantaged under existing schemes compared with the MIS, but that most other households reviewed, especially lone parents, were at a disadvantage.

The research team suggest that MISs provide a useful tool for policy makers and practitioners to reflect on poverty measurement including thresholds and equivalence measurements, to provide an index of need, and to provide a test of affordability (Bradshaw 2008).

Fuel Expenditure and MIS

As part of the MIS project, fuel costs have been calculated for each household based on a home of suitable size meeting the Decent Homes standard¹ (Oldfield 2008). The consultation carried out during the project considered the size and type of property needed for the specific family types, and the group decision on housing size and appropriate heating regimes was used by an independent expert (Bill Wilkinson, Energy Audit) to determine the appropriate fuel use standard using BREDEM12. It was decided that social housing should be the standard used to set the MIS, even though the standard of social housing in the UK is generally better than the standard of privately owned or rented housing.

The fuel consumption was tabulated showing gas for space and hot water heating and electric cooking, lights and appliances. Using the cost of fuel supplied by Scottish Power (as a mid-range provider) the weekly fuel costs were established for the family types.

The working paper went on to compare these minimum fuel costs with mean fuel expenditure of families of that type with the Expenditure and Food Survey (EFS). In general these fuel costs are lower than the data in the EFS. Oldfield found that the proportion of the budget standard spent on fuel by MIS households was between 5 and 6%, which is significantly below the fuel poverty threshold. A ready reckoner to establish fuel costs using different fuels was established and published on the MIS project website.

The authors acknowledged the need to update fuel costs and standards regularly and a methodology has been established.

Assessing fuel poverty using MIS

In theory, it would be possible to redefine that a household was in fuel poverty if it spent more than the appropriate fuel cost parameter as outlined above. In practice this seems to rely too heavily on BREDEM, which in itself is a model with known weaknesses, and ignore the variability of housing and fuel prices. Richard Moore's work (2009) looked at the MISs as a whole and considered how actual fuel expenditure measured by the English House Condition Survey (EHCS06, CLG 2008) related to the overall MIS net of housing costs. Using EHCS06 data on fuel costs and incomes, he developed an algorithm that calculated whether a household had enough income after all MIS minimum living costs had been deducted to pay for the fuel costs.

His definition is therefore:

"A household is in MIS based fuel poverty if:-

EHCS net household income - EHCS housing costs - MIS minimum living costs (for all items except housing & fuel) < EHCS fuel costs."

This can also be written as an MIS-based Fuel Poverty Index:

Fuel Poverty Index = income available for fuel ÷ total fuel costs

If the Fuel Poverty Index is less than 1, then the household is in MIS-based fuel poverty.

Applying this to the EHCS underlying data, the numbers of households in fuel poverty under the standard definition (full income before housing costs) and an MIS-based definition can be compared. This suggests that, based on 2006 figures, the *number of households in fuel poverty in England was 2,432k using the standard definition and 5,218k using the MIS-based definition.*

The main differences are to reduce the numbers of single pensioner households deemed to be in fuel poverty and to dramatically increase the numbers of households with dependent children, especially lone parents and larger families.

¹ The reference used was the Parker Morris report of 1961, supplemented in the text by 'reasonable degree of thermal comfort' and 'adequate standard of warmth' using the WHO recommendation and referencing the UK Fuel Poverty Strategy 2001, but addressed only social housing.

The implication is that most of these households cannot afford to heat their homes without spending less, "often critically less", on other essential commodities including food.

In practice, other research shows that heating is one of the main services to be cut in order to meet household needs. However one of the other things Moore's research shows is the overlap between MIS-based fuel poverty and general income poverty. This contrasts with the limited overlap with fuel poverty as it is currently defined.

Targeting fuel poor households using current and MIS based approaches

Targeting of fuel poverty programmes has been criticised in numerous research reports, including the National Audit Office Review of Warm Front (2009). The use of the basket of benefits does not appear to reach those currently defined as fuel poor, and the blanket approach to over 70s addresses the pensioner households which may or may not be in actual fuel poverty. Could targeting be improved by considering the impacts of fuel costs on a different set of households?

Other approaches to targeting the fuel poor tend to rely on a broad assessment of income, and an assessment of actual fuel costs to say whether a person may be in fuel poverty or not. Local Authorities that have provided programmes that use wider criteria than the benefits qualification experience problems with definitions of income and the need to work out what the fuel costs would be if the person heated their house to the standard temperature on a specified regime, rather than their actual fuel expenditure. It becomes virtually impossible to establish whether a household is in reality suffering from fuel poverty.

If the profile of households in fuel poverty calculated by Moore is taken as the revised profile, then some changes to targeting could be proposed, e.g. all lone parents and all families with more than 1 dependant child, with the focus for measures being benefits checks and energy efficiency measures. The use of certain benefits could be used to establish other vulnerable households, especially long-term sick and disabled, although this does not reach those who do not claim the benefits to which they are entitled.

There are various problems to be considered here. Firstly, larger households suggest that larger properties will be inhabited and therefore more costly energy efficiency measures might be required. Secondly, the numbers indicated in Moore's research double the households in fuel poverty, which may be politically unacceptable. Would it double the cost of the solutions? If targeting were more accurate and the measures installed took people who were actually in fuel poverty out of it, would this be money better spent, reduce carbon emissions and eliminate fuel poverty? This is a huge question.

Research proposed

A group of researchers with previous experience of both theoretical and practical assessment of fuel poverty policies, programmes and practice could carry out a 'What If?' exercise. This would ask questions that included:

- What if fuel poverty were defined in a different way
 - How did it come to be defined in its current form and how can the original intention be refocused
- How would this affect assessment of fuel poverty
- How would this affect the way programmes should be targeted
- What would be the social and environmental implications
- What would be the revised cost of programmes (including aspirational and theoretical programmes) to eliminate fuel poverty
- To what extent would it ensure that vulnerable customers are prioritised
- Would it be better or worse than the existing system

There are undoubtedly other questions.

An initial assessment of the questions could lead to a briefing paper. This would be circulated to key stakeholders who would be invited to a workshop to explore the initial findings and identify issues needing to be explored further. This might be an iterative or consultative process, and a further workshop might be needed. A report would be circulated with recommendation for further research, commented upon by the stakeholders and amended before publication and dissemination.

The overall objective of this research would be to explore alternatives and suggest ways in which a more equitable and practical solution to tackling fuel poverty could be found, one in which theory matched reality more closely. The vision remains the eradication of fuel poverty.

Next steps

This paper is being circulated to people who might be interested or involved in the research proposed above. It is also available on the website www.pett-projects.org.uk where comments can be submitted, leading to a dialogue of interested parties.

It would be desirable to pull together a draft project proposal by the end of November 2009 in order to progress to a project submission in early December. Your comments are welcomed, indeed needed!

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All MIS papers are available on the website www.minimumincomestandard.org

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