

RISING ENERGY COSTS: THE IMPACT ON LOW-INCOME FAMILIES

Introduction

“I only have a bath before school on a Sunday night and one on a Wednesday night, because hot water is expensive. The boys carry around their bed covers in the house and sit downstairs with them in the day because it's so cold. We all do it when it's really cold because the gas isn't on all day. We have to go to the shop to buy tokens for the meter to heat the living room.” Stacey, 16¹

Hundreds of thousands of Britain's poorest families are set to miss out on support with their energy bills at a time when rising energy costs are forcing families to cut back on essentials and live in fear of going into, or being pushed further into, debt. According to a recent YouGov survey we commissioned, rocketing energy prices are putting the well-being and health of children at risk.

This briefing uses findings from a survey² of more than 1,000 parents commissioned by Save the Children to examine how the cost of energy affects family budgets. Additional research by Save the Children reveals that the government-backed Warm Home Discount scheme, which is funded by the energy companies to help those families at greatest risk of fuel poverty, will fall significantly short. At least 775,000 of the very poorest families will not get the help they need this winter.

“When it's cold in the house we wear a lot of coats, a lot of scarves, double layers, blankets, quilts – anything you can put on really. You can't have the heating going on constantly every day, because it just wouldn't last the week.” Carys, mother of two

KEY FINDINGS

The survey asked families about rising energy bills. The results reveal the extent to which high energy costs are hitting the poorest families (those living on less than £12,000 a year) hardest:

- **Almost half (45%) of parents have said they are considering cutting back on food in order to pay their energy bills this winter.**
- **Almost a third of all parents on the lowest incomes said they won't be able to afford their winter energy bills even if they cut back on other essentials.**
- **54% of all parents are worried that their children's health will suffer because their house is too cold this winter.**

The survey results also show that all families, regardless of income, are being hurt by high energy costs. According to our survey:

- **59% of all parents are having to cut back on other essentials to afford their energy bills this winter**
- **55% of all parents are worried about being pushed into debt if they can't afford their energy bills**
- **half of all families plan to turn the heating off for longer to keep their bills down.**

RECOMMENDATIONS

The findings from the survey back up previous research by Save the Children, which revealed that families who live in fuel poverty are likely to under-heat their homes in an effort to meet their fuel costs from within a small budget.³ Rising energy costs are putting enormous pressure on low-income families. The outcome for many will be a colder home. This is especially worrying in the context of increasing evidence that shows the negative impact of a cold home on children, especially young children from poor homes. Action must be taken to reduce the risk of fuel poverty among low-income families and alleviate the impact of rising energy costs.

We're calling for the 'big six' energy companies⁴ to ensure all families eligible for Cold Weather Payments⁵ receive the Warm Home Discount.

In addition, we want:

- **all energy companies to transfer all prepayment-meter customers and all customers in arrears on their bills onto the cheapest tariff**
- **the government to continue to recognise that income is crucial to its anti-poverty strategy and that boosting the incomes of the poorest families has a whole range of benefits, including reducing fuel poverty**
- **the government to support and invest in energy-efficient measures as a way to reduce fuel poverty for low-income families.**

THE IMPACT OF FUEL POVERTY

“Winter was really bad – we had ice on the inside of our windows, the whole way up to the top of the window. My main thing with not having an awful lot of money is that I’m afraid to put the heating on. I’ve cut back on absolutely everything, I’ve really cut back.” Debbie, mother of one

Households that need to spend more than 10% of their income to attain an adequate level of warmth (usually 21 degrees for the main living area, and 18 degrees for other occupied rooms) are defined as living in fuel poverty.⁶ Fuel poverty does not just affect old people; half of fuel-poor consumers are under the age of 60.⁷ While families living in poverty get help with housing costs and council tax, they do not receive support specifically for energy costs in the way that older people do (namely, the Winter Fuel Allowance). Poorer families with young children can get support during periods of consistently cold weather (Cold Weather Payments), but this support is limited.

IMPACT ON THE HEALTH OF CHILDREN

There is a clear link between living in cold, damp conditions for long periods and significant health risks.⁸ The direct health risks of fuel poverty range from a higher incidence of winter deaths, to cardiovascular, respiratory and mental health problems.

Homes that are under-heated have a negative impact on health, particularly the health of young children. The Marmot Review⁹ concluded that for children this includes lower than average weight gain in infants, higher hospital admission rates, hampered physical development and asthmatic symptoms – children in cold homes are more than twice as likely to suffer from a variety of respiratory problems as children living in warm homes.

Cold homes also have a negative impact on the mental health and well-being of adolescents.¹⁰ More than one in four adolescents living in cold housing are at risk of multiple mental health problems, compared with one in 20 adolescents who have always lived in warm housing.

Parents are well aware of these affects. **According to our survey, 54% of parents on the lowest incomes are worried that their children’s health will suffer because their house will be too cold this winter.** ¹¹

IMPACT ON EDUCATION AND CHILD DEVELOPMENT

“If we pay more for our bills then that means that my parents can’t buy me any resources for my learning...” Mahima, age 10

The indirect effects of fuel poverty on children and young people are also significant – primarily, lower educational attainment, emotional well-being and resilience. Young people whose parents cannot afford to heat their homes adequately can find they have no warm, quiet space in which to do homework or to have time alone or with friends. There is a strong link between cold homes and

lower educational attainment for children and young people.¹² The increased incidence of minor illnesses can lead to more days off school for children from cold homes.¹³

The survey shows that households that struggle to pay their heating bills forgo spending on other essentials to balance their budgets. This could mean families are reducing their spending on food, clothes or other bills, which has an impact on the physical and mental well-being of family members.

HOW FUEL POVERTY HURTS LOW-INCOME FAMILIES

The story of Anna and Brian and their two sons, aged four and six

Anna and Brian can't afford to heat their council house for more than a few hours each day, even at the height of winter. They spend £40 to £45 per week on energy costs for a family of four. Even though Brian works, the family struggles to get by on a very low income.

Earlier this winter they had to visit the local food bank to get enough to eat. Both parents regularly go without meals because they don't have enough money. Anna and one of her sons suffer from asthma, exacerbated by black spores and damp in their home.

"Out of Brian's income [around £100 per week], £15 goes on rent, £20 to £25 goes on electric, £20 goes on gas, and then we put £10 in the car," says Anna. "Whatever's left goes on food. With the benefits, the same thing happens again. Brian's wages come in on a Friday so that gets us through to Tuesday. Benefits come in on Wednesday, and that gets broken down to food, fuel, gas and electric again.

"I worry. I can't put the heating on like everybody else can. Some people put it on at six in the morning and leave it on all day so the house stays at a constant temperature, but because we can't, the house gets cold. If my son or I get sick, the asthma just flares up, and if it's not controlled quite quickly either he or I will end up in hospital.

"We're on payment keys, so you are paying a bit more than a person paying direct debit, which shouldn't be."

THE POVERTY PREMIUM

"Low-income families are paying 20% more than wealthier families. This is ridiculous! Wealthier families should be paying more than low-income families." Florent, age 10

Our research shows that the poorest families in the UK face a 'poverty premium' of up to £1,300 a year just because they're on low incomes. Low-income families often pay more for energy because they lack internet access, which means they can't get information about the best deals from price comparison websites. They also often don't have a bank account, which means they cannot take advantage of the cheapest direct debit tariffs.

Debt is a major worry for low-income parents, exacerbated by rising energy costs. **According to our survey, 71% of parents on the lowest incomes are worried that their winter energy bill will push them into debt.**



Competition between energy companies has the potential to keep energy costs down because companies compete for customers by offering the lowest tariff. In theory, householders can shop around for the cheapest tariff and change suppliers easily. But in practice, low-income families have little confidence that switching will bring real rewards and they are concerned that they will incur unexpected costs that they cannot afford.¹⁴

If you're one of the 850,000 or so electricity customers and 700,000-plus gas customers in Britain who are in debt to their energy company,¹⁵ you may find it difficult to switch supplier. According to Consumer Focus,¹⁶ prepayment-meter customers with debts over £200 cannot switch.¹⁷ **According to our survey, a fifth (20%) of families on the lowest incomes said they do not believe they are able to switch energy supplier.**

STUCK IN DEBT

The story of Simon, single parent of one daughter, aged six

Once in arrears, repaying gas and electricity debts can make a serious dent in an already tight budget. One parent we spoke to found that almost a third of his income is taken up by energy costs and repayments for arrears on energy bills.

Simon lost his job at the start of the recession and has struggled to get back into secure employment. He receives support through Child Tax Credit (£50 per week), Child Benefit (£20 per week) and Income Support (£67.50 per week), giving him a total weekly income of £137.50 per week. Every week, £17 is automatically deducted from his Income Support and goes towards paying off his debts (including energy bill arrears). Simon has to spend a further £25 per week on gas and electricity to keep him and his daughter warm. That leaves him with less than £100 per week to cover other costs.

Simon used to get cold weather payments when his daughter was under five. He really missed these payments in 2011, particularly given the harsh winter. It is crucial that Simon is able to get the best deal for his energy so he has a fighting chance of freeing himself from debt.

WARM HOMES DISCOUNT

The government has introduced a new mandatory rebate scheme called the Warm Home Discount. **The scheme will grant a rebate to eligible households of £120 in the first year (that is, winter 2011/12), £130 in year 2, £135 in year 3 and £140 in year 4 on their energy bills.** But the Warm Home Discount is fundamentally flawed because it doesn't require the energy companies to provide enough funding to support all households on low incomes and at risk of fuel poverty.

Despite research which shows that the risk of living in fuel poverty is almost the same for low-income families as it is for pensioners, the government has decided that only poorer pensioners will form the 'core group' automatically eligible for support. The 'broader group' are eligible for, but will

not automatically receive, the discount because payment is at the discretion of each energy company. In effect, because most energy suppliers have a cash-limited amount to offer the broader group, the Warm Home Discount will operate on a first come, first served basis.¹⁸ Only British Gas has said it will offer the discount to all its eligible customers as long as they claim by the end of January 2012 (it won't be clear until later in 2012 what the resulting extra financial commitment from British Gas has been).

The cost of the scheme is shared across energy suppliers. Suppliers are required to spend annually, in aggregate, £250 million in 2011/12 rising to £310 million in 2014/15. The government estimates that the Warm Home Discount will be worth £1.1 billion over the four years of the scheme (that is, 2011 to 2015) and will help around 2 million households.

A large proportion of the funding will be taken up by those in the core group (namely, those in receipt of pension credit). To ensure all families eligible for Cold Weather Payments (predominantly made up of low-income families with children under five or a disabled child) receive the Warm Home Discount this year, the amount of money available would need to increase by almost £100 million.¹⁹ It is not clear how the encouraging commitments each energy company has outlined for their broader group (that is, the inclusion of low-income families with children) can be delivered without them committing the extra funding required.

Worryingly, the energy companies are only required to spend £3 million on broader-group customers in the first year of the scheme. This means only 25,000 households will receive the £120 rebate this year. However, there is nothing stopping the energy companies voluntarily contributing extra funding so that they can provide more households with vital support.

Given the impact of fuel poverty on younger children it is crucial that the energy companies prioritise support for poor families with young children. **We're calling on the energy companies to guarantee that the Warm Home Discount will be paid to all families eligible for Cold Weather Payments and to find additional funding for this if required.**

The funding situation improves over the lifetime of the scheme (see figures set out in appendix B). In future years the scheme will start to help a significantly higher number of households. There will be enough funding to provide the Warm Home Discount to around 650,000 broader-group households in years 3 and 4 of the scheme.²⁰ However, even then, hundreds of thousands of households with children in need of support won't receive it.

We will be monitoring closely the energy companies' willingness to invest extra money in the Warm Home Discount. If they are not forthcoming then the government will need to consider increasing the financial commitment by the energy companies in subsequent years of the scheme.

DATA MATCHING

Pensioners on pension credit will receive the Warm Home Discount automatically using data-matching techniques, but low-income families will have to claim the discount from their energy company. It is vital that energy companies, regulators Ofgem and the government promote the Warm Home Discount and provide information about how to apply. To ensure the information reaches potential claimants, energy companies could include information on statements to all customers or customers on particular tariffs.

The government will have the opportunity for promotion when it makes Cold Weather Payments or, for example, gives loans or grants under the Social Fund. Ofgem can promote the Warm Home Discount to a range of stakeholders, including advice organisations. Without comprehensive promotion, many low-income families will not be aware support is available. **Worryingly, in our recent survey, only 9% of parents on the lowest incomes said they had heard of, and were planning to apply for, the Warm Home Discount.**

TARIFFS AND PAYMENT METHODS

At present there are more than 400 different energy tariffs available to consumers. This makes the process of identifying the best deal incredibly complex. Ofgem are looking to force the energy companies to simplify and reduce tariffs so it's easier for consumers to identify the best energy deal available to them.

Prior to the Warm Home Discount the energy companies were required to offer social tariffs to poor households. The eligibility criteria for the social tariffs of five of the 'big six' energy suppliers did not include families with children. The Warm Home Discount is a step in the right direction in that families with children under five appear to be increasingly recognised as being among the priority groups in need of support. Even if the Warm Home Discount is paid to all families eligible for Cold Weather Payment, a large number of families in desperate need of support with their energy bills won't receive help.

While the energy companies are not able to identify which of their customers are low-income families with children, they are aware of which customers are in debt and which are using prepayment meters to pay for their bills. We know that there are large numbers of people in arrears on their energy bills and we know that many customers using prepayment meters are on a low income. It is crucial that those on limited incomes don't pay more for energy than they have to and that the energy companies transfer them onto the cheapest tariff.

Save the Children's poverty premium research shows that low-income families are the least likely to investigate cheaper tariffs and switch suppliers. **It is therefore incumbent on energy companies to be proactive in moving low-income families onto the best deal for their payment method.**

ENERGY EFFICIENCY

We note with concern that the government has significantly cut the Warm Front energy-efficiency scheme for low-income households and plans to abolish it altogether in 2013. **The government must ensure support to improve energy efficiency in homes is available to low-income families.**

The **Green Deal** is the government's programme to deliver energy-efficiency improvements in the country's housing stock. The scheme will allow households to pay off the cost of their energy-efficiency improvements from the savings on their energy bills. This approach will not work for most low-income households because they typically under-heat their homes to reduce their fuel costs and



therefore will not have the opportunity to generate savings. To address this problem the government has proposed the **Energy Company Obligation (ECO)**, a fund that will help families who cannot benefit from the Green Deal and will fund energy improvements in hard-to-treat homes. Specialists in energy costs and energy efficiency (notably Consumer Focus, Friends of the Earth and National Energy Action) have argued that the level of funding for ECO is significantly short of what would be required to effectively support investment in energy-efficiency measures for the large number of households in fuel poverty, without including the cost of meeting the demand from hard-to-treat homes.

POOR ENERGY EFFICIENCY

The story of Carys and David and their two children, aged nine and six

There's a hole in the roof of the family's council accommodation, where the rain came in three years ago. It's still boarded up because the council have yet to repair it. The house is heated by an old, inefficient system. Most of the time they can't afford to put the heating on. They sit in their coats, and can see their breath in the air because it's so cold.

One of the children suffers from asthma, which the cold exacerbates.

"We've got an old fashioned boiler, not a combi boiler," says Carys. "So that takes up a lot of money. Because it's a council house, they decide on the boiler type.

"You've got to get the children clothes for school, you've got to pay for their food, so what you tend to do, especially with the gas, because we can't afford to keep paying all the time, is we tend to turn it off during the day.

"Then we will wear coats, scarves. We'll do whatever it takes to stay warm, and then we switch it on just before the children come home from school and we can do a little bit of washing, things like that. It's switched on again in the morning just before they get out of bed, and then switched off again throughout the day."



Appendix A – Number of households with children eligible for Cold Weather Payments

Table showing estimates of the number of households with children eligible for Cold Weather Payments (Save the Children calculations) by English region of Great Britain

	North East	North West	Yorkshire and the Humber	West Midlands	East Midlands	South West	South East	London	East
Totals	41,520	108,930	72,950	82,560	54,940	53,280	82,050	132,780	61,090

Table showing estimates of the number of households with children eligible for Cold Weather Payments (Save the Children calculations) by nation of Great Britain

	GB total	Scotland	Wales	England
Total	799,590	64,130	45,280	690,100

Figures are based on Save the Children calculations. Some households have not been included because sufficient data isn't available. Please contact Graham Whitham for further information.

Appendix B – Warm Home Discount expenditure and expected number of recipients

Table showing expected expenditure on the Warm Home Discount across the core and broader groups²¹

Expenditure Type	2011/12	2012/13	2013/14	2014/15
Core group	£97m	£143m	£159m	£190m
Broader group	£3m	£47m	£88m	£90m

We know that over the years of the scheme the amount of funding for the broader group increases. Based on the amount of funding available and the size of the rebate offered we can say the following (based on Save the Children calculations):

- Unless the energy companies provide extra funding for the Warm Home Discount scheme, at the very most only 25,000 families from broader group will receive the rebate this winter.
- Unless the energy companies provide extra funding for the Warm Home Discount scheme, at the very most only 361,538 families from broader group will receive the rebate in 2012/13.
- The amount of support available for the broader group in year 3 and year 4 of the scheme is considerably higher. That means that a maximum of 651,852 families from the broader group could receive the rebate in 2013/14 and 642,857 in 2014/15.

Appendix C – Latest price increases by the ‘big six’

The big six energy companies have all announced price increases over the past year. Energy costs have gone up considerably, with the average dual fuel²² energy bill now standing at £1,345.²³ The latest percentage increases are set out below for information. It should be noted that a number of the energy companies have announced a series of price rises over the last few years. Rising energy prices affect all households but have a larger proportional impact on families on a low income.

Company	Gas price increase	Electricity price increase	Date introduced	Impact on average bill (annual increase)
British Gas	18%	16%	18 th August 2011	£192
EDF	15.4%	4.5%	10 th November 2011	£123
Eon	18.1%	11.4%	13 th September 2011	£170
Scottish and Southern Energy	18%	11%	14 th September 2011	£171
Scottish Power	19%	10%	1 st August 2011	£175
nPower	15.7%	7.2%	1 st October 2011	£133

References

- ¹ The quotes and case studies used in this briefing are taken from Save the Children's campaign work with parents and children during 2011.
- ² We commissioned YouGov to interview more than 1,000 parents with children under the age of 16.
- ³ Westlake, A (2011) *UK Poverty Rip Off*, Save the Children
- ⁴ The 'big six' energy companies are British Gas, EDF, Eon, Scottish and Southern Energy, Scottish Power and nPower.
- ⁵ Cold Weather payments are made to families on very low incomes (for example, those in receipt of Income Support or Job Seeker's Allowance) with either young children or children with a disability. These families are considered most at risk of fuel poverty and the effects of the living in a cold home. Other groups, such as older people on low incomes and disabled adults, can also get help through Cold Weather Payments. Cold Weather Payments of £25 are usually paid when there are seven days of continuously cold weather.
- ⁶ NB John Hills is currently leading a review on the fuel poverty target and definition
- ⁷ Consumer Focus' response to Ofgem's social tariffs report, Consumer Focus press notice, 18 August 2009
- ⁸ Liddell, C (2008) *The impact of fuel poverty on children*, Belfast: Save the Children
- ⁹ Marmot, M (2011) *The Health Impacts of Cold Homes and Fuel Poverty*, Friends of the Earth
- ¹⁰ Marmot, M (2011) *The Health Impacts of Cold Homes and Fuel Poverty*, Friends of the Earth
- ¹¹ Liddell, C (2008) *The impact of fuel poverty on children*, Belfast: Save the Children
- ¹² Liddell, C (2008) *The impact of fuel poverty on children*, Belfast: Save the Children
- ¹³ Liddell, C (2008) *The impact of fuel poverty on children*, Belfast: Save the Children
- ¹⁴ Anderson, A, White, V & Finney, A (2011) "You just have to get by": *Coping with low incomes and cold homes*, Centre for Sustainable Energy
- ¹⁵ Consumer Focus (2011) *Press release Nov 16: Plug the Debt*
- ¹⁶ Consumer Focus is the statutory consumer champion for England, Wales, Scotland and (for postal consumers) Northern Ireland. Consumer Focus stands up for the rights of consumers across the whole economy. They have undertaken significant research into the energy market.
- ¹⁷ Sourced from Consumer Focus (30/11/11) <http://www.consumerfocus.org.uk/get-advice/energy/plug-the-debt>
- ¹⁸ Two of the main energy suppliers (British Gas and Eon) have stated that they will provide the Warm Homes Discount to low-income families (families receiving Child Tax Credit and with an income below £16,190¹⁸). The four other big energy suppliers have included those families eligible for Cold Weather Payments in the Broader Group but not other low-income families.
- ¹⁹ Based on Save the Children calculations
- ²⁰ Based on Save the Children calculations
- ²¹ Sourced from: <http://www.decc.gov.uk/assets/decc/Consultations/warm-home-discount/1307-gov-response-warm-homes-disc-cons.pdf>
- ²² Dual Fuel is where a single company supplies a customer with gas and electricity. A Dual Fuel offer usually gives the best deal.
- ²³ Ofgem: Press Notice 14th October 2011

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Save the Children works in more than 120 countries. We save children's lives. We fight for their rights. We help them fulfil their potential

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