



House of Commons
Public Accounts Committee

The Warm Front Scheme

Thirty-ninth Report of Session
2008–09

*Report, together with formal minutes, oral and
written evidence*

*Ordered by the House of Commons
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The Public Accounts Committee

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Summary

The Warm Front Scheme (the Scheme) provides assistance to eligible households with the installation of heating and insulation measures in order to improve household energy efficiency and to reduce fuel poverty. Until the formation of the Department of Energy and Climate Change (the Department) in 2008, the Scheme was the responsibility of the Department for Environment, Food and Rural Affairs. Between June 2005 and March 2008, the Scheme assisted over 635,000 households at a cost of £852 million, and by 2010–11, cumulative Scheme funding is expected to reach £1,811 million. We last reported on the Scheme in 2003–04,¹ and made recommendations to improve the targeting of the Scheme towards those classed as most ‘fuel poor’ or with the least energy efficient homes, to raise awareness of the Scheme, and on the efficiency and effectiveness of Scheme measures.

In 2007, over three million households were estimated to be in fuel poverty, and increases in domestic gas and electricity prices may have added a further 1.5 million households. A household is defined as ‘fuel poor’ when it needs to spend more than 10% of its net income on fuel to maintain an adequate heating regime. The Scheme continues to be poorly targeted despite some changes to the eligibility criteria. Nearly 75% of households entitled to a grant are unlikely to be in fuel poverty, whilst the Scheme is only available to 35% of all those households likely to be in fuel poverty, partly because the eligibility criteria include receipt of non-means tested benefits.

In addition, the Scheme does not prioritise those with the most energy inefficient accommodation. Between June 2005 and March 2008, £34 million was paid to households whose properties were already energy efficient, representing about 18% of those assisted in that period. Some £15.4 million was spent on providing energy efficient light bulbs, tank jackets and draught proofing, which have limited impact on overall energy efficiency, and are also unlikely on their own to lift households out of fuel poverty.

The maximum grant available under the Scheme did not change between July 2005 and April 2009. Over the same period, labour costs for gas and oil central heating rose by 8.9% and costs for other services by 7.3%. One impact has been to increase the number of applicants required to contribute to the cost of works from under 1 in 10 in 2005–06 to one in four in 2007–08. The average contribution in 2007–08 was £581. Some 6,000 households withdrew their application and 1,400 opted for less expensive measures. The Scheme may be failing the poorest and most vulnerable households as they are least likely to be able to make a contribution.

Many customers are satisfied with the improvements once complete. Common complaints relate to the costs of works, particularly if a contribution is required, because in these circumstances the customer cannot use his own contractor or obtain quotes directly. Nevertheless, cost comparisons for seven of the most common installation works appear competitive overall. The Scheme will not fund the cost of boxing in pipes and wires or of repairing plasterwork affected by the installation. This exclusion leaves householders with

1 Committee of Public Accounts, Fifth Report of Session 2003–04, *Warm Front: helping to combat fuel poverty*, HC 206

unsightly work, and some do not understand in advance that this will be the case.

The Department for Environment, Food and Rural Affairs failed to put in place adequate management arrangements in respect of its contract with eaga plc, which runs the Scheme on its behalf. The absence of such arrangements contributed to the delay of over two years in clarifying some contractual terms and the extent of VAT payable on materials. In 2009, the Department is undertaking a mid term review of the contract.

On the basis of a report by the Comptroller and Auditor General,² we took evidence from the Department of Energy and Climate Change, the Department for Environment, Food and Rural Affairs and eaga plc on the performance of the Scheme and on the management of the contract with eaga plc.

Conclusions and recommendations

- 1. The lack of clarity over whether the Warm Front Scheme is primarily aimed at improving the energy efficiency of homes or at reducing fuel poverty is detrimental to achieving best value for money from the funding available.** Between June 2005 and March 2008, £34 million was paid to households whose properties were already energy efficient and £15.4 million was spent on measures which have limited impact on overall energy efficiency, and are also unlikely on their own to lift households out of fuel poverty. The Department should clarify the primary focus of the Scheme and consider whether minor energy efficiency measures could be better delivered through other programmes, allowing the Scheme to focus on relieving fuel poverty.
- 2. Nearly 75% of households assisted by the Scheme are not in fuel poverty, and the Scheme is only available to 35% of households most likely to be ‘fuel poor’.** In reviewing the eligibility criteria in 2009, the Department should consider excluding those households where a property is already energy efficient, and determine if there is scope to improve targeting to enable more of those in fuel poverty to be reached by the Scheme.
- 3. Data suggests 28% of those in fuel poverty live in rural areas but only 15% of households assisted were from such areas.** Rural properties are often harder to treat as they may be off the gas network and be older properties with solid walls which are more difficult to insulate. The Department should publish the results of their pilot tests of alternative technologies for hard to treat homes and where appropriate, the planned date when such technologies may be available through the Scheme.
- 4. Many customers are happy with the improvements to their heating systems but are unhappy at the state in which their property may be left after the work.** The Scheme does not cover the cost of making good, for example, damaged plasterwork and boxing in of pipes. The Department and eaga plc should test alternative methods to clarify customers’ understanding of the work which will be funded, for example by using computer generated images of how the property will look once work is complete. The Department should estimate the impact of including such works within the Scheme where they can be accommodated within the grant maxima, and consider whether better targeting of the Scheme, as suggested above, might allow funding of such work to be included where appropriate.
- 5. In 2007–08, one in four applicants was required to make a contribution to the works done under the Scheme because the costs exceeded the grant maxima, and over 6,000 households, possibly those most in need of assistance, withdrew as a result.** In 2005–06, fewer than 1 in 10 applicants were required to make a contribution. The grant maxima were unchanged between July 2005 and April 2009 but labour and other costs rose by between 7% and 9% over the period. The Department should monitor whether the level of customer contribution (numbers and amounts) is reasonable to enable the Scheme to meet the objective of easing fuel poverty, as well as the reasons for applicants’ withdrawal. It should use the data to inform ongoing Scheme design and revision.

6. **Some customers consider that they could obtain the work required more cheaply and effectively from local contractors rather than those commissioned by eaga plc, although the National Audit Office report found that overall the amounts charged appeared competitive.** In reviewing its contractual arrangements with eaga plc, the Department should determine whether the specifications for heating measures can be made more flexible in order to reduce costs without undermining reliability, safety and efficiency, and whether there is an opportunity to obtain efficiencies in labour and other costs. The Department should determine the feasibility of allowing customers who are required to make a contribution to the work, the scope to obtain quotations from accredited companies in their area as a check on the prices quoted by the Scheme's contractors.
7. **The failure by the Department for Environment, Food and Rural Affairs to put in place adequate contract procurement and management processes from the start for the contract with eaga plc led to a lack of clarity over some key terms in the contract which took some two years to resolve.** The Department should put in place experienced procurement staff to negotiate and manage future contracts for the Scheme and other major projects.

1 Improving household energy efficiency

1. The Warm Front Scheme (the Scheme) provides a valuable service for those households unable to keep their property at a reasonable temperature during cold weather. The Warm Front Scheme allows such people to apply for a grant to improve the energy efficiency of their property. In 2008–09, up to £2,700 was available for insulation, gas central heating installation and other energy efficiency measures, or up to £4,000 if the property required oil rather than gas heating systems. Between June 2005 and March 2008, the Scheme helped over 635,000 households.³

2. The Scheme was originally developed as a tool to reduce carbon dioxide (CO₂) emissions, but has subsequently become a focus of initiatives to tackle fuel poverty. The Scheme was the responsibility of the Department for the Environment, Food and Rural Affairs until 2009, when it transferred to the Department of Energy and Climate Change (the Department). The Department is considering how the Warm Front Scheme and other public funded schemes and initiatives, designed to improve household energy efficiency, might be better co-ordinated in future.⁴

3. In 2007, over three million households were estimated to be in fuel poverty, although the time lag in collating and analysing data on households makes it difficult to estimate numbers accurately. In 2006, nearly two million vulnerable households (defined as households with young children, elderly people, or individuals with long term illness or disability) were estimated to be in fuel poverty, the latest data available. A household is defined as ‘fuel poor’ when it needs to spend more than 10% of its net income on fuel to maintain an adequate heating regime. This is defined as approximately 21°C in the main living room and 18°C in other occupied rooms during daytime hours. Changes in the condition of a home and its heating, household income levels or energy prices can all affect the number of households in fuel poverty. Between 2005 and 2007, an extra 1.5 million households may have fallen into fuel poverty because of increases in domestic electricity and gas prices. The number could increase further as a result of reductions in average income due to the current economic recession.

4. The Government is unlikely to meet its target to eradicate fuel poverty, as far as reasonably practicable, from all vulnerable households by 2010 and in all households by 2016.⁵ Progress requires more funds to be directed to those in fuel poverty by improving the targeting of the Scheme. Effective targeting of the Scheme was a principal concern in our previous report in 2004.⁶ The Department for Environment, Food and Rural Affairs adjusted the eligibility criteria in the intervening period, but nearly 75% of households entitled to a grant are unlikely to be in fuel poverty, and the Scheme is only available to 35% of households likely to be fuel poor. The difficulties in targeting arise in part from the inclusion of non-means tested benefits to determine eligibility. Households not in fuel poverty who qualify for assistance include the disabled and people aged over 60 years, and

3 Qq 25, 102; C&AG’s Report, paras 1.5, 2.1

4 Qq 139–140; C&AG’s Report, paras 1.4, 2.14–2.5

5 Q 144; C&AG’s Report, paras 1.2–1.3

6 Committee of Public Accounts, Fifth Report of Session 2003–04, *Warm Front: helping to combat fuel poverty*, HC 206

the grant may help to prevent such households from falling into fuel poverty. The Department plans to review the eligibility criteria in 2009.⁷

5. The difficulties targeting the Scheme at those in fuel poverty have been compounded by the requirement to meet the Scheme's other objective to improve energy efficiency. Between 2005 and 2008, for example, Scheme expenditure on energy efficient light bulbs amounted to £4.9 million, and a further £10.5 million was spent on draught proofing and tank jackets. Such measures will save households money, but are unlikely to be sufficient to lift a household out of fuel poverty. Additionally, the property's existing level of energy efficiency is not considered during the initial assessment of eligibility. Some 18% of those households assisted between June 2005 and March 2008 received an average grant of £409, despite their property already being relatively energy efficient. Expenditure on such properties amounted to £34 million.⁸

6. The Department for Environment, Food and Rural Affairs relied on its contractor, eaga plc, to determine whether a household applying for assistance was eligible for a grant and, if applicable, to put them on a waiting list. In view of the difficulties in obtaining accurate and timely data on those in fuel poverty, the contractor relies on evidence of benefit entitlement to confirm eligibility. There is no prioritisation based on customer need, although eaga will make exceptions where appropriate.⁹

7. The maximum grant available under the Scheme did not change between July 2005 and April 2009. Labour costs for gas and oil central heating rose by 8.9%, and costs for other services by 7.3% over the same period. When the costs of work are above the grant maximum, the customer is required to pay the difference before work can take place. In 2007–08, the average contribution was £581. The number of applicants required to pay towards the cost of work increased from under 1 in 10 in 2005–06 to one in four in 2007–08. Around 4% of customers (6,076 households) withdrew their application, and around 1,400 opted for less expensive measures. The Scheme may be failing the poorest and most vulnerable households living in fuel poverty who are least likely to be able to make a contribution. In April 2009, the Department announced that the maximum grant for households connected to the gas grid would increase by £800 to £3,500 and for those dependent on oil heating by £2,000 to £6,000.¹⁰

8. Households in rural areas wait longer for their installation work and often have to contribute more than households living in urban areas (**Figure 1**). In 2006, 28% of vulnerable households in fuel poverty were from rural areas, yet they received only 15% of the funds available. Many of the properties in rural areas are relatively hard to treat as they are often not on the gas network and may have solid walls which can make the building more difficult to insulate. The Department is piloting some alternative methods of heating, such as using solar energy to heat water, but it was not clear when the results of such pilots would be published or what options really existed for hard to treat homes.¹¹

7 Qq 6, 23, 122; C&AG's Report, paras 2.6–2.7

8 Qq 9, 21, 31–32, 38, 45, 47, 82, 124–128; C&AG's Report, para 2.11

9 Qq 62–64; C&AG's Report, paras 1.6, 1.8

10 Qq 11, 12, 65–66, 95, 122, 129, 131; C&AG's Report, paras 3.1, 3.6

11 Qq 14, 27, 48–57, 60–61, 83; C&AG's Report, paras 2.4–2.5, 2.12, 3.4

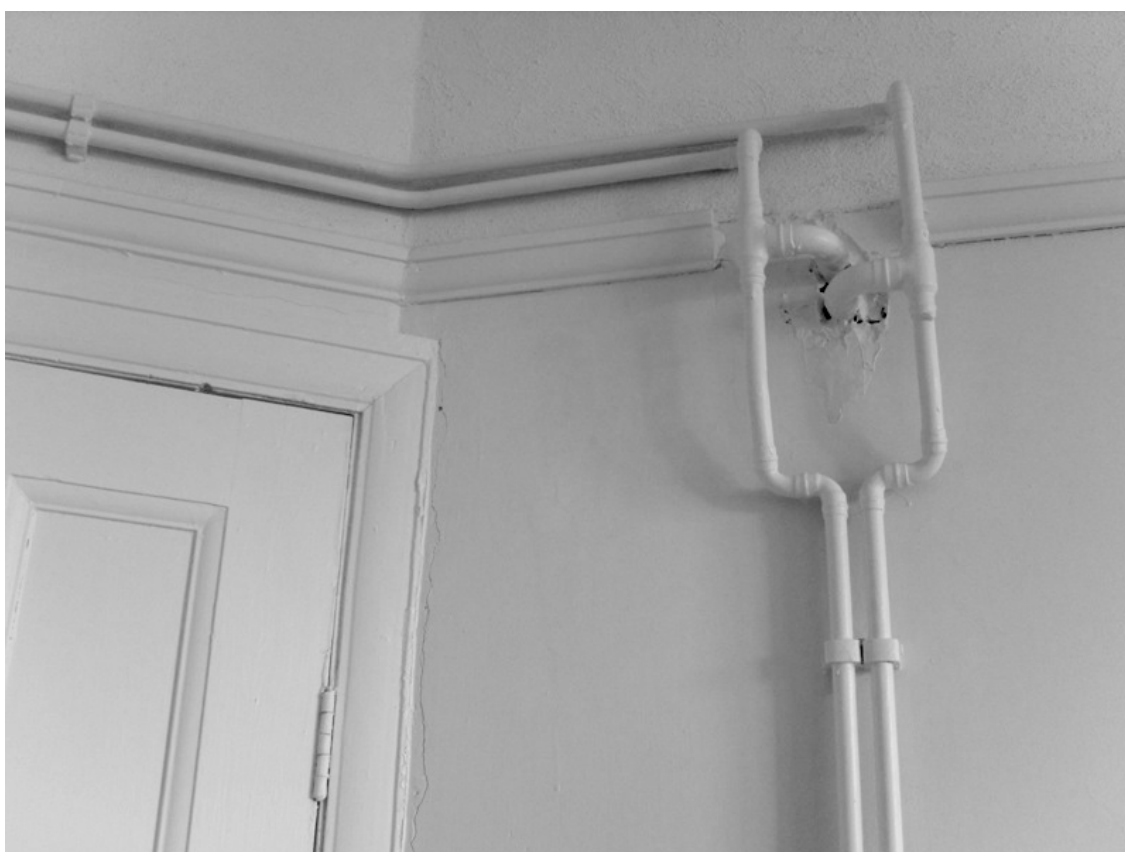
Figure 1: Service provided to rural customers

	RURAL HOUSEHOLDS	ALL HOUSEHOLDS
Time to install insulation	31 working days	27 working days
Time to install heating	76 working days	64 working days
Average customer contribution	£869	£538
28% of vulnerable fuel poor households were in rural areas, but only 15% of households assisted under the Scheme were rural		

Source: C&AG's Report, para 2.5, Figure 4

9. The Scheme only funds work on installation measures. These can leave customers with exposed pipe work and wires, which many consider unsightly (**Figure 2**).¹² Scheme literature sent to customers sets out the specifications of completed work. eaga plc acknowledges, however, that a third of their customers are unable to read or write and even where a customer understands the extent of the work, they may not be able to fund, for example, the boxing in of pipes, which would leave living space in a more attractive state.¹³

Figure 2: Examples of exposed pipe work



¹² Qq 16, 133–137, 144; Ev 20

¹³ Q 96; C&AG's Report, para 2.2

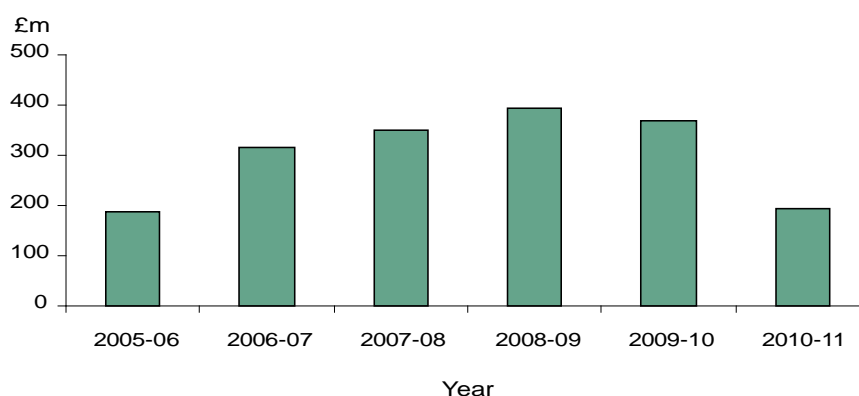


Source: Ev 20

2 Contract management

10. The Department for Environment, Food and Rural Affairs contracted out the management of the Scheme to eaga plc in 2005. Since letting the contract, the Scheme has changed from a relatively small contract into a major programme. Government funding has increased significantly and by 2010–11 some £1,811 million will have been invested in the Scheme (**Figure 3**). The Department for Environment, Food and Rural Affairs established a Warm Front Scheme board which includes representatives from consumer organisations and eaga plc to oversee the contract and financial performance. Three changes were made to the contract in 2006, but it did not appoint a manager to oversee day to day performance until the summer of 2007.¹⁴

Figure 3: Scheme funding, 2005–06 to 2010–2011



Source: C&AG's Report, Figure 3

11. The absence of day to day professional oversight of the Scheme has led to difficulties in contract management. For example:

- The contract between the Department and eaga plc includes a profit share arrangement, where any profits over 11% are shared equally between the two parties. In April 2008, incorrect profit calculations in the 2006 and 2007 cost certificates were identified, which resulted in eaga plc paying back £652,000 to the Department for Environment, Food and Rural Affairs.¹⁵
- eaga plc owned subsidiaries can carry out up to 30% of installation work under the Scheme. The Department has recently reviewed the clause because of confusion between the two parties as to whether the limit related to the value of work or number of jobs, or whether the percentage is measured each year or over the lifetime of the contract. It has been determined that the clause relates to the value of the work undertaken. In 2007–08, work by eaga's subsidiaries accounted for 30% of the overall value of work and 31% of all jobs completed.¹⁶

14 Q 13; C&AG's Report, paras 1.8, 1.11, 4.2–4.3

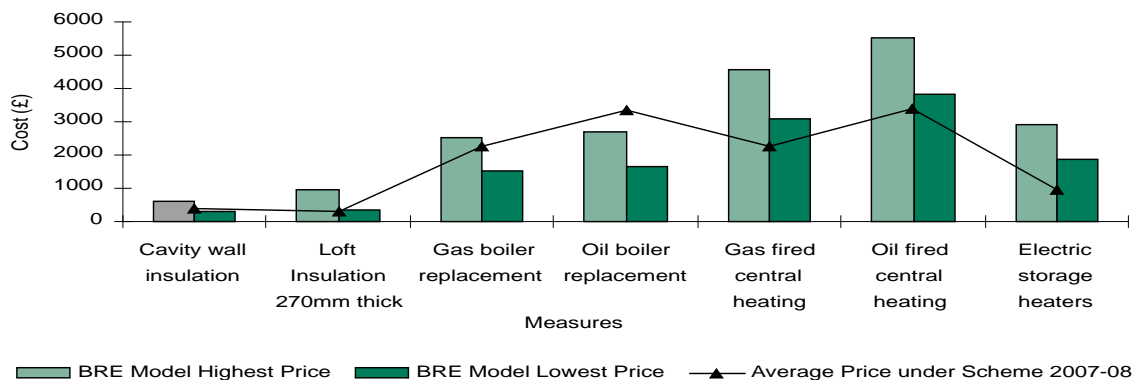
15 Q 105; C&AG's Report, paras 4.7–4.8

16 Qq 84–85; C&AG's Report, para 3.8

- The profit share arrangement does not include any profits generated by eaga's seven subsidiaries for other work undertaken in relation to the Scheme, for which eaga group received £95 million in income in 2007–08.¹⁷
- As part of its original tender, eaga plc had noted that transferring the contracts for the supply of heating materials from the Department to the contractor would attract a lower VAT rate of 5%, resulting in annual savings to the Scheme of over £5 million a year.¹⁸

12. The cost of works is a common complaint about the Scheme. Under current Scheme rules, customers are unable to obtain alternative quotes or use their own contractors. Only contractors on the eaga panel of contractors are able to undertake work. The National Audit Office undertook a cost comparison for seven of the most common installation works undertaken by the Scheme and found that prices charged by the Scheme were competitive compared to industry averages (**Figure 4**). Gas and oil boiler replacements were at the top end of the range of costs modelled. The boiler of choice on the Scheme is an Ideal boiler, although the qualified engineer may determine that another boiler is more appropriate in some circumstances. The boilers are procured from Wolsley Plc through Plumb Centre under a five year contract and eaga does not make any profit on the cost of the actual boiler. In 2009, the Department and eaga were in mid-contract negotiations, including about the scope to secure cost savings in the supply of materials.¹⁹

Figure 4: Cost comparison of Scheme measures



Note: All figures exclude VAT. The Building Research Establishment (BRE) model is based on four dwelling types chosen to represent the target group for the Scheme: two-bedroom mid terrace house, 3-bedroom semi detached house, 3-bedroom detached bungalow and 2-bedroom low rise top floor flat. The price ranges reflect estimated costs for work on these types of dwelling, adjusted to reflect regional differences in the costs of works.

Source: C&AG's Report, Figure 14

17 Qq 17, 104; C&AG's Report, para 4.7

18 C&AG's Report, para 4.4

19 Qq 88, 90, 95, 109–117; C&AG's Report, paras 3.1, 3.10

Formal Minutes

Monday 29 June 2009

Members present:

Mr Edward Leigh, in the Chair

Rt Hon David Curry

Nigel Griffiths

Rt Hon Keith Hill

Mr Austin Mitchell

Geraldine Smith

Rt Hon Alan Williams

Draft Report (*The Warm Front Scheme*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 12 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Thirty-ninth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

[Adjourned till Wednesday 8 July at 3.30 pm]

Witnesses

Wednesday 11 March 2009

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Dame Helen Ghosh DCB, Permanent Secretary, Department for Environment, Food and Rural Affairs, **Ms Moira Wallace**, Permanent Secretary and **Mr Simon Virley**, Director General (acting), National Climate Change and Consumer Support, Department of Energy and Climate Change, and **Mr Paul Varley**, Divisional Managing Director—Managed Services, eaga plc

Ev 1

List of written evidence

- | | | |
|---|--|-------|
| 1 | Department for Environment, Food and Rural Affairs, Department of Energy and Climate Change and eaga plc | Ev 17 |
| 2 | Age Concern England and Help the Aged | Ev 19 |
| 3 | Mrs Carole Evans | Ev 20 |

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Thirty-second Report	Financial Management in the European Union	HC 698
Thirty-third Report	Planning for Homes: Speeding up planning applications for major housing developments in England	HC 236
Thirty-fourth Report	DEFRA: Natural England's Role in Improving Sites of Special Scientific Interest	HC 244
Thirty-fifth Report	The administration of the Crown Court	HC 357
Thirty-sixth Report	The health of livestock and honeybees in England	HC 366
Thirty-seventh Report	Building the Capacity of the Third Sector	HC 436

Thirty-eighth Report	HMRC: The Control and Facilitation of Imports	HC 336
Thirty-ninth Report	The Warm Front Scheme	HC 350

Oral evidence

Taken before the Committee of Public Accounts on Wednesday 11 March 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Douglas Carswell
Mr David Curry
Nigel Griffiths
Keith Hill

Mr Austin Mitchell
Dr John Pugh
Geraldine Smith
Mr Don Touhig
Mr Alan Williams

Mr Tim Burr, Comptroller and Auditor General, **Wendy Kenway-Smith**, Assistant Auditor General and **Mr Phil Gibby**, Director, National Audit Office, gave evidence.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL THE WARM FRONT SCHEME (HC 126)

Witnesses: **Dame Helen Ghosh DCB**, Permanent Secretary, Department for Environment, Food and Rural Affairs, **Ms Moira Wallace**, Permanent Secretary, Department of Energy and Climate Change, **Mr Simon Virley**, Director General (acting), National Climate Change and Consumer Support, Department of Energy and Climate Change, and **Mr Paul Varley**, Divisional Managing Director—Managed Services, eaga plc, gave evidence.

Q1 Chairman: Good afternoon, welcome to the Committee of Public Accounts where today we are considering the Report of the Comptroller and Auditor General on the *Warm Front Scheme*. Welcome back again to Dame Helen Ghosh, who is Permanent Secretary to the Department for Environment, Food and Rural Affairs, Moira Wallace, who is Permanent Secretary of the Department of Energy and Climate Change and Paul Varley who is the Divisional Managing Director of Managed Services at eaga plc. We are blessed today with two permanent secretaries, an *embarras du richesse*. I am very happy for either permanent secretary to answer any questions I put.
Dame Helen Ghosh: Fine.

Q2 Chairman: Just out of politeness I will address you, Mrs Ghosh, if you do not mind.

Ms Wallace: Actually it should probably be the other way round because I am the accounting officer since the transfer of this budget in the supplementary estimates.

Q3 Chairman: Are you technically yet the accounting officer?

Ms Wallace: Now I am.

Dame Helen Ghosh: Just to explain, until the passing of the supplementary estimate and of course when this Report was written, I was the accounting officer—this was a matter of a week or so ago.¹

Q4 Mr Bacon: You signed a memo before this hearing, did you?

Dame Helen Ghosh: I did, but here I am. Indeed, I thought it would be helpful to come along because of that but also because a number of the questions the Committee might have relate to as it were the history, when it was in Defra's hands.

Q5 Mr Bacon: You are setting a very useful precedent, Dame Helen.

Dame Helen Ghosh: Ms Wallace is in the lead now and onwards.

Q6 Chairman: If we start by looking at scheme eligibility, this of course is the second time we have looked at it and one knows—one has been here long enough—that the same things come back and back, but that is another story. If we look at Appendix 3 at page 28, "Previous PAC Recommendations", with the help of the NAO I have looked at that and on eight of those bullet points there has been limited progress. If we look at 2.6 we can see that when we last examined the Scheme in 2003 a third or more fuel poor households were not being reached, and then in response the Department produced a number of measures which are described in that appendix. The situation apparently is little better now, Ms Wallace; we have four out of ten who need help are not being reached and up to three-quarters of those who are being helped apparently do not need it, so it appears to me this is still appalling targeting. Why is that?

Ms Wallace: This is a very complicated area as you know and the Report itself actually quotes several figures on it. It does say that three-quarters of those

¹ In fact Moira Wallace became formally responsible as Accounting Officer for DECC on 12 March, the day after the hearing, when parliament approved the relevant Spring Supplementary Estimate.

who could qualify are, as you described, not on means-tested benefits, but it also says that 63% of those who do get help are on means-tested benefits. It also draws attention to the fact that some of the people who could or do qualify and who are not on means-tested benefits may very well be being prevented from falling into fuel poverty by the Scheme because some of the benefits that are included also go to very poor people and the majority of them are in lower deciles of income.

Q7 Chairman: You have made some changes, you have attempted to deal with this problem that we identified before on targeting, and they are dealt with in figure 5. I just wondered whether they go far enough; you must be worried about this because the whole idea of the Scheme, obviously, is to help those whom you want to help, so you must be concerned. Perhaps there need to be other ways of targeting this Scheme.

Ms Wallace: We are very concerned about the problem of fuel poverty and our ministers have made it clear that they continue to review how we can do better on fuel poverty, but we are also conscious that those who benefit from the Scheme are vulnerable in many different ways—they are vulnerable because they are over 60, they are vulnerable because they are on disability benefits—and it has made a real difference both to fuel poverty and to carbon emissions, helping many people who otherwise would not be able to get this help.

Q8 Chairman: What is the answer to my question, yes or no, are you going to target it better or not?

Ms Wallace: We are considering your recommendations; we are looking at the whole issue of fuel poverty, we will come back with our interim findings on that this summer and we are reflecting on what you have said. The issue of targeting people in fuel poverty is really difficult, which reflects why people have tried to deal with this over the years and we are left with the situation you describe.

Q9 Chairman: We read in paragraph 2.9 that you are paying £34 million to households who are already energy efficient; is this good targeting of resources?

Ms Wallace: The amounts that go to those who are already energy efficient are quite small; on average they are £400. Some of those people will nonetheless be in fuel poverty and we do not believe that it is sensible—

Q10 Chairman: It says there that the average grant awarded to these households was £409. Although it is small individually it still works out at £34 million.

Ms Wallace: Yes, but some of these people will be in fuel poverty and it is a very difficult decision to say because your house is well-insulated we will not fix your central heating, because people can be energy efficient and they can be cold.

Q11 Chairman: Can we now look at paragraph 3.3? It says here that “The Department and eaga have not established why households have not gone ahead

with their application and therefore to what extent vulnerable households were excluded from the Scheme.” We have had a letter from Age Concern and in the third paragraph Age Concern say: “we have strong evidence that the Scheme is failing the poorest and most vulnerable households living in fuel poverty. Age Concern has received more than 5,000 complaints about Warm Front in the last year alone. The most common problem is that the maximum level of the grant available under the Scheme—which has been frozen since 2005—often fails to cover the cost of the work needed and applicants are therefore asked to pay top up fees.” What Age Concern tell us in their evidence to us is borne out in figure 8 on page 17 of this Report, the percentage of applicants exceeding the grant maximum, and you can see it is increasing year by year. What are you doing to try and resolve the problem?

Ms Wallace: First of all on the facts, we have been investigating, as you would expect us to, why people who have not progressed work have not progressed it and the results are quite interesting. We have found that although there are 6,000 odd who are described as having withdrawn their application, about 1,400 of them chose to accept some help through less expensive measures, so they did not go completely outside the Scheme. Of those 1,400 odd that are described as “not progressed” almost half of those are less than three months old and may very well be progressed, the people may be thinking about it. I say that really to show that we can cast a little bit more light on what actually underpins those figures.

Q12 Chairman: What do you say to Age Concern, a serious organisation; 5,000 complaints this year, you must be worried about that.

Ms Wallace: Yes, we are worried about it and our ministers have made it clear that they are considering whether to raise the grant maximum which would mean fewer people needed to make a contribution. There are a number of things that we want to consider before doing that: first of all, obviously, there is a trade-off between the grant maximum and the number of people you can help overall, but also at the moment we are in the middle of a mid-contract renegotiation between us and eaga which may have a bearing on costs in the Scheme and we want to complete that, which we expect to do at the beginning of the next financial year before deciding where and if so by how much to raise the grant maximum.

Q13 Chairman: I am surprised, in paragraph 4.2, to read “The Department did not allocate a procurement manager to be involved in the day-to-day management of the contract until summer 2007.” This is a big contract, it is very important as far as the public are concerned, no proper project manager apparently in place for the first two years. We have said again and again in this Committee that it is absolutely essential to have project managers with experience on the ground in there early on and staying there; why did this not happen?

Ms Wallace: This might be for Dame Helen.

Dame Helen Ghosh: This is a question for me, Chairman. The size of the contract of course when it was first let was considerably less than it has become; it has effectively changed from a relatively small contract into a large one for the additional money the Government has put in. As you know from the Report the OGC was closely involved in the letting of the original contract and once the contract was up and running we did have a Warm Front Scheme Board from the department, from a number of consumer organisations, from eaga itself there to oversee the contract and the management board was looking at the financial performance. As circumstances changed—and the main circumstance was the rapid increase in the amount of money the Government was putting in, we did start to identify, as one does with any contract, some things that could perhaps be done better and the Report very well outlines some of those in terms of development in understanding of the cost-sharing issues and, later on in the life of the contract, the issues around VAT which the Report also picks up. If you look at contract management within the department you will see a progressive increase in interest. We appointed additional directors within the department to look at the Warm Front programme alongside others, our professional procurement people were involved and from early in 2008 we started work which effectively was the forerunner of the review that Moira describes to look at the mid-contract review of terms. Again, the Report shows that progressively we have tightened up management of the contract but it is a very different contract in terms of scale and profile from what it was when we kicked it off.

Q14 Chairman: Thank you. Can I ask you about rural households which are mentioned in paragraph 2.4. It says “rural households made up 28% of vulnerable fuel poor households in 2006, but only 15% of assisted households were in rural areas.” Their average contribution is much higher at £869; why is this?

Dame Helen Ghosh: I am not sure whether it is me but I am rural of course, coming from Defra.

Q15 Chairman: You are, yes.

Dame Helen Ghosh: This is of course a matter of concern and the Report describes again very well the fact that many households living in rural areas are particularly hard to help—Mr Curry will be in particular familiar with some of these. Some are off the gas network, which is always a challenge, and the kinds of easy wins that you can get in many houses—cavity wall insulation for example—is not something that many rural houses are suitable for. Eaga with the department, now DECC, has been doing good pilot studies of alternative technologies that could help and I am sure that when eaga has done those and as part of the review that Moira describes we should be able to do more to help rural households, but there is something about the circumstances of many rural dwellings that makes it difficult.

Q16 Chairman: Mr Varley, we have had a letter which we have now passed to you from a member of the public showing examples of very poor work—the Committee have all got a copy. How are we going to ensure—and this is dealt with in paragraph 2.2 and 2.3 of the Report—that the most vulnerable people are not faced with cowboys?

Mr Varley: It is important, Chairman, to understand how we manage our sub-contractors because I do refute the claim that they are cowboys. When eaga was awarded the contract in 2005 we undertook a rigorous procurement programme to ensure that our contractors were vetted, had financial stability, placed health and safety at the forefront of everything that they did and had high standards of workmanship. When those contractors go and do a job they fit to a specification as outlined by the Government and the specification and the pictures that I see before me are in line with that specification. That is something we can change, that is something we can look to do as we go forward and the pictures in these examples here are showing where pipes have not been boxed in. To box in pipes is something that we could look to do on the Scheme, but at the moment it is not a requirement of the Scheme.

Q17 Chairman: My last question to you, Mr Varley—indeed my last question—is: are you making excess profits? Look at paragraph 4.7, the profit share arrangements. Between 1 June 2005 and 31 May 2007 eaga retained a total profit of nearly £8 million from administration of the Scheme—this exceeds your own guidelines.

Mr Varley: As we have worked on the Scheme, Chairman, we have always sought to improve the way we have undertaken activities. Dame Helen talked previously about the significant ramp-up in the Scheme from the start of the contract through to where we are now, given the importance that the Government has placed on this particular area of fuel poverty. Our profit share arrangements with Government were exactly to enable continuous improvement in the programme in a risk-reward mechanism and through that risk-reward mechanism we have been able to return significant funding to the grant account to enable further households and further families to benefit from the programme.

Chairman: Thank you very much. Keith Hill.

Q18 Keith Hill: Thank you Chairman. Could I just begin by putting a couple of rather general propositions to you; first of all, am I right in thinking that the problem really with taking physical measures to tackle fuel poverty is that the key variable is not the condition of the property?

Ms Wallace: There are three things fundamentally about fuel poverty: the condition of the home and its heating, income and prices, and it is the interaction of all of those three that determines whether people are in fuel poverty or not. The condition of the home is important and it is something that we can make a

difference to and we want to do that for fuel poverty reasons and also for climate change reasons, but it is one of a number of factors.

Chairman: I apologise, Mr Hill, we have to break for a division; we will be back as quick as we can.

*The Committee suspended from
3.46 pm to 3.52 pm for a division in the House.*

Q19 Keith Hill: Thank you Chairman. My second general question or proposition is am I right in thinking that quite a large number of properties would never get a SAP rating of over 65, or at least not without prohibitive expense?

Ms Wallace: I think that is right.

Dame Helen Ghosh: The Report makes that point.

Q20 Keith Hill: Let us look then at the Report in a little more detail. £852 million has been spent and a colossal, 635,000 households have been assisted. What proportion of that expenditure went to households which were not in some form of fuel poverty?

Ms Wallace: The honest answer is that we do not know and we cannot know. We have statistics that are shared in the Report about how many people are on means-tested benefits and we know something about the incomes of those who were not on means-tested benefits but we do not know, the procedure does not establish, whether the person helped is in fuel poverty, which is quite a complex calculation.

Q21 Keith Hill: However, the Report refers to this £34 million the Chairman has already alluded to in grants to homes which were already deemed to be comparatively energy efficient, so do we take it that at least £34 million was not spent on houses in fuel poverty?

Ms Wallace: I do not think we can say that none of that went to people in fuel poverty but it did go to homes that were comparatively energy efficient, but as I said in response to an earlier question that may still mean that they have problems with their heating and their heating does not work.

Q22 Keith Hill: The Scheme seems to be pretty successful in terms of customers with 86% satisfied.

Ms Wallace: Those are very good figures and 84% would recommend the Scheme to a relative, but we are not at all complacent about it because 6% are dissatisfied and we see a lot of them because they write to you and you write to us and we take very seriously what they say. Nonetheless, there are many people for whom this is a great Scheme, it works well and it gives them something that keeps them warm now and saves them money in the future.

Q23 Keith Hill: Identifying these properties and these households which are in fuel poverty is not easy. The NAO on page 6 in recommendation 16 says this: "Reliance on benefits may be a pragmatic proxy measure to determine eligibility . . ." but the problem about relying on benefits is of course that

people do not apply for all of their benefits. Is there any means of getting around that particular problem?

Ms Wallace: First of all, obviously, the Department of Work and Pensions is doing a great amount through all kinds of channels to try and make people aware of the benefits that they can claim, but this Scheme also does that too; it offers as part of the service a benefit entitlement check which is very successful in alerting people to other benefits that they could claim and indeed has got a large number of people onto means-tested benefits who were unaware that they were eligible for them. It is something like 120,000 people who have had benefit entitlement checks and the average extra benefit that people are able to claim is of the order of £27 a week, so it is actually managing to draw more people into claiming benefits that they are entitled to. On the other issue of identifying the fuel poor the Report does allude to other approaches that are being used that are more local—for example, warm zones—and the Government is also planning to introduce a scheme like this which will actually use effectively street by street door-knocking to try and zero in on the properties and the people who most need help and may be unaware of it. We are working quite hard to draw this to the attention of the fuel poor.

Q24 Keith Hill: But the fundamental fact about that rather stark statistic in the NAO's Report that the Scheme is only available to 43% of vulnerable households is that 57% of the potential households do not make the benefit claim.

Ms Wallace: Yes, but we are trying both through the work of the Department of Work and Pensions and through the work of this Scheme to draw people into awareness of the benefits they can claim. I do not know whether Mr Varley wants to say any more on that since they actually do the work.

Mr Varley: Absolutely. In conjunction with the department every single person who applies to the Warm Front programme is eligible for a benefit entitlement check and we offer them a benefit entitlement check. That has returned, as Ms Wallace said, to those that successfully go through a questionnaire process—and we have dedicated people who answer and help and walk these vulnerable people through those questions and what we do is we then assist them to go and claim those benefits—that has returned £27 to £28 per week to those customers, £120 million in total per annum in increased benefits. That therefore enables them to get access through the benefits system to the Warm Front Scheme.

Q25 Keith Hill: That is a splendid initiative which brings all sorts of advantages to people, but what I am struck by—and you might want to respond to this—is if you look at the recommendations made by the NAO as to the way in which the Scheme might be improved in terms of its delivery to vulnerable households, none of the recommendations actually relates to the issue of benefit entitlement.

Ms Wallace: That is true.

Dame Helen Ghosh: That is true, and I do not know whether that is because the NAO has taken the view that what Warm Front is doing is as much as it can do, but nonetheless we are determined to use this Scheme, which does draw attention and is quite well-known, not just to say can you get help with heating or insulation but actually are there benefits you should be claiming that you are not aware of.

Q26 Keith Hill: The conclusion is really the kind of basic somewhat negative conclusion about the performance of the Scheme, which is that the department has made little progress in targeting grants to the households most in need and that is because basically awareness of benefit entitlement has not improved over that period.

Ms Wallace: That may be part of it but there is also a genuine dilemma about whether those groups who the NAO Report is suggesting implicitly should be removed from the Scheme, should be removed from the Scheme. Those are themselves vulnerable groups who might very well be in fuel poverty now, if they were not in fuel poverty 18 months ago. They are people over 60, on fixed incomes, possibly spending a lot of time at home, who get £300 towards the cost of a new central heating system. That is described as not well targeted but nonetheless they are actually quite vulnerable in some people's definition. Equally, people who are not on means-tested benefits but who, you will know, are on Disability Living Allowance or on Attendance Allowance who may need their home at a higher temperature, who may be in all day, are right on the border of fuel poverty—these are not benefits that are going to very well-off people so I would say it is shades of grey.

Keith Hill: Thank you Chairman.

Chairman: Thank you. Mr Bacon has a question.

Q27 Mr Bacon: It is possibly for Dame Helen or possibly for Ms Wallace and I do not really mind whom; it relates to Dame Helen's comment about the rural situation and how that is more difficult. I think you said it is always a challenge when people are not on gas. There are 1.4 million people not on gas, of whom I am one, and I like to think there will be aspects of the condition of rural people who happen not to be on gas that would not be a challenge, but it does seem from the way the Scheme is structured that it is biased against people in rural areas. I once had a police officer say to me that all the problems he would encounter in the worst parts of the inner city you will also encounter in rural areas; the difference is that they are much more hidden. That will be the case too with fuel poverty and the fact that 28% of vulnerable fuel poor households—this is paragraph 2.4 as the Chairman referred to earlier—are rural but only 15% of the money goes to them, less than in effect half, does suggest that there is a systematic bias here. I would like you to comment in more depth on this but also is it correct, which I read recently, that there is now an EU directive in place to outlaw boilers which burn oil? If that is the case what is the likely impact of that on the

fuel poor in rural areas who are not on gas, because if they are not on gas and the boiler is unlawful they are leaving us very few options.

Ms Wallace: First of all, as I imagine you may know, Ofgem has recently taken some measures which it hopes will, at the margin, incentivise some more connections for those who are currently off grid, but the second thing is that actually your question goes to what measures can be covered under the maximum which I am going to ask Mr Virley very briefly to comment on.

Mr Virley: We are trialling some of the new technologies that will be able to help rural households like air source heat pumps and solar thermal technology for properties that are off the gas grid, and we are also introducing new subsidies for some of those technologies.

Q28 Mr Bacon: My question is mainly about oil. I live in a house that is perfectly warm, it is using oil, and most of my neighbours are the same—it is common. We do not need connecting to the gas supply, thank you, gas is a very clean and rather expensive form of energy that is going to run out much sooner than oil, or we will become dependent on foreign sources much more quickly. What I want to know is, is it correct that proposed EU legislation will make oil boilers unlawful and, if so, what is going to be the impact of that on the fuel poor?

Mr Virley: The measures that we are taking are designed to encourage the take-up of renewable technologies.

Q29 Chairman: Is it correct or not?

Mr Virley: I am not aware of that proposal.

Q30 Chairman: You are not aware of it; okay, that has answered that then.

Mr Virley: But we are seeking to incentivise the take-up of renewable technologies which will deliver low carbon sources of heating to those who are off the gas grid at the moment.

Chairman: We will have to break again I am afraid.

*The Committee suspended from
4.03 pm to 4.08 pm for a division in the House.*

Chairman: We are quorate, so we will start straightaway with Mr Don Touhig.

Q31 Mr Touhig: You are spending £4.9 million on light bulbs; has this made any real difference to people in fuel poor households?

Ms Wallace: All the evidence is that energy efficient light bulbs do make a big difference to people's energy bills.

Q32 Mr Touhig: What do they do, sit round keeping warm around a light bulb, do they?

Ms Wallace: No, they pay less, it is something like £30 a year I think.

Q33 Mr Touhig: The Report does not bear that out; that is interesting. You have agreed the Report, have you, you have signed up to the Report?

Ms Wallace: Yes.

Q34 Mr Touhig: It does not bear that out.

Ms Wallace: It does not suggest it is not true either.

Q35 Mr Touhig: It does not say anything.

Ms Wallace: We cannot write everything we know into the Report.

Q36 Mr Touhig: You also spent £10 million on draught proofing; what do families get from your draught proofing? Draught excluders, or what do you give them?

Ms Wallace: I will let Mr Varley explain draught proofing.

Mr Varley: Draught proofing is when you have a draught that goes through a window we will put a strip on the window to stop the draught coming through, or on the bottom of a door to stop the draught coming through.

Q37 Mr Touhig: Another £300,000 is spent on hot water tank jackets.

Ms Wallace: The same argument: it prevents heat loss, it allows your water to stay warm longer.

Q38 Mr Touhig: The Report tells us that these measures have a very limited effect on the energy efficiency of any property.

Ms Wallace: They are less effective in terms of the energy efficiency than, for example, cavity wall insulation or insulating the loft but they do save energy, they do save bills. The Government actually recommends that we all have them done. They are very common and they will save you money.

Q39 Mr Touhig: As far as the fuel poor households are concerned you are spending over £15.5 million on these three measures; why continue them because according to the Report it has a very limited impact upon helping people who are fuel poor. Can you better spend the money on something else?

Ms Wallace: I can only go back to saying that actually these are amongst the easiest, simplest and most highly effective measures—

Q40 Mr Touhig: It ticks a box that you are doing something about the fuel poor but it does not really do much for them.

Ms Wallace: We recommend everyone does them because of the money they will save, and that money will matter even more to those who are fuel poor.

Q41 Mr Touhig: Do you know exactly how much per household would be saved on these three measures?

Ms Wallace: I wonder whether Mr Varley can help me.

Q42 Mr Touhig: The average fuel poor household, if there is such a thing, have you measured it?

Mr Varley: The average fuel poor household that we have looked at through the whole of the NAO Report was £300 in totality. For those three measures it would very much depend upon the size of the property.

Q43 Mr Touhig: You do not really know so you do not really know whether you are getting any value for money from these. The NAO, do you think we are getting value for money from this £15.5 million spending, what is your conclusion?

Mr Burr: There are savings but, as we said in the Report, they are relatively modest for low energy light bulbs, between £30 and £40 a year. I would not belittle that, but nevertheless it is not of itself likely to take people out of fuel poverty.

Q44 Mr Touhig: The Report also tells us that these measures help reduce carbon emissions, but is that what this is about? Fine, we want to reduce carbon emissions, but should not that resource, rather than be thinking about reducing carbon emissions, be going more directly to helping people who are fuel poor?

Ms Wallace: Many of the things that Warm Front does achieve both in that they make people warmer, they make people spend less and they save carbon, which is one of the reasons why actually we think it is quite a good programme but obviously we think it actually brings better value for money if this spending is achieving several of the department's objectives.

Q45 Mr Touhig: Have you measured—forgive me but time is pressing, I do not mean to cut you off—how much more value you might get from homes being insulated rather than spending money on these worthy but peripheral contributions to fuel poverty?

Ms Wallace: I do not know that we have, I do not actually know whether the NAO have either, but we can certainly look at what would happen if we banned giving people tank jackets or energy saving light bulbs or draught insulation—

Q46 Mr Touhig: And used the money for insulation.

Ms Wallace: And used the money on other things. I do not wish to contradict what the NAO said but I am not sure what the difference would be. The reason we do these things is because they help save people's bills which is why we recommend them for the whole population and we recommend them all the more strongly for those—

Q47 Mr Touhig: There is no doubt there is a benefit but, as the Report says, it is very limited and you have £15.5 million which perhaps could be spent better on helping people insulate their homes. Can you tell me is it better to insulate your home than to spend money on these things; do you get much more saving?

Mr Varley: In terms of the saving to a household you will get more for insulating a house but these are very cost-effective measures. An energy efficient light bulb will pay back the cost in about three to four

months, so the household and the family that benefits from a light bulb in their home will see reduced energy bills across that year.

Q48 Mr Touhig: These are not large sums of money overall but it just seems to me that the £15.5 million on these three measures might be better spent elsewhere. Perhaps you might want to reflect on that and clearly look in a bit more detail at the NAO Report. What about people in hard to treat homes? Mr Edgar Gough in my constituency of Fleur-de-Lys and Alan Davies, who is the chairman of the Britannia, Fleur-de-Lys and Pengam Community Development Group, they have problems with hard to treat homes because they have not got cavity walls. I appreciate this is a devolved matter but the issue is really UK-wide; what is being done to help people like that?

Ms Wallace: As my colleague Mr Virley explained a moment ago we are now trying to trial some new measures that might be of more use to people in that situation. That is a real challenge because these are relatively new technologies but we are looking at how they can be made practicable and affordable and brought within the Scheme. I come back to the point you have just been making, that Warm Front is trying to help people in ways it can and actually some of the things we have just been describing may be all you can do to a hard to treat home and therefore, actually, they are able to get some benefit from the Scheme which they otherwise would not.

Q49 Mr Touhig: Is it practical, if you have a home that has a single wall, without a cavity, simply to put up a very cheap other wall—it does not have to be of brick—to create a cavity? Is that not a simple solution to the problem?

Mr Varley: Again, Mr Touhig, it really does depend on the type of property and where the property is. I could not say for sure that it would.

Q50 Mr Touhig: Has that been explored, is that a possibility? As I say, it does not have to be built of brick or breeze-block, you can get all sorts of insulation these days that could create a cavity wall.

Ms Wallace: There are forms of solid wall insulation. Some of them go on the inside of the house and some of them go on the outside of the house. This is something that, as a country, we are going to have to explore because it is the only way to insulate some houses. I think I am right in saying that at the moment they are not available under the Scheme but we are considering whether they could be. They are at the moment quite expensive.

Q51 Mr Touhig: When do you think you might have some definite answers about it?

Ms Wallace: I would imagine we would make a decision on that issue one way or the other for the moment in the course of the next few months.

Q52 Mr Touhig: I asked your secretary of state about these matters a little while ago and in the reply from the junior minister I was told “We will continue to

assess innovative products including solid wall insulation for use in the Warm Front Scheme” which you have just mentioned. Precisely what are these products, these innovative ideas you are looking at?

Ms Wallace: Do you want to talk about this, Simon?

Mr Virley: Solid wall insulation would be one of the options for hard to treat homes. It obviously relates to the question of the grant maximum.

Q53 Mr Touhig: Sorry, could you explain what solid wall insulation means?

Mr Virley: An exterior coating on the outside of a solid wall house. That is one of the options that we are looking at in the review of whether the grant maxima should be changed or not because obviously these are more expensive measures on hard to treat homes and that is one of the factors that we are looking at.

Q54 Mr Touhig: What others, because your minister tells me that there are a number of options.

Mr Virley: There are indeed and one of the other options is to look at whether some of the other technologies, newer technologies, relating to solar thermal et cetera could be extended.

Q55 Mr Touhig: Can you explain those new technologies?

Mr Virley: Solar thermal is basically a series of hot water pipes that sit on top of a roof that could be an alternative way of heating the home, so some of those alternative technologies are one of the other factors that we are looking at.

Q56 Mr Touhig: How would that stop heat loss through a solid wall?

Mr Virley: It is an alternative heating technology.

Ms Wallace: Sorry, there are several different reasons why homes are assessed as hard to treat. Sometimes that is because of the nature of the outer structure of the house, i.e. there is no cavity to fill, and sometimes it is, as we were discussing a moment ago, because for example they are off the gas grid and therefore you are stuck with the choice of oil, which is desirable for some reasons but undesirable for others, so is there another technology we can use that is not gas, ideally that is renewable, that might be cheaper. So the hard to treat contains two different kinds of problem.

Q57 Mr Touhig: My time is almost up, just one final question. The community of Hollybush in my constituency, it is going to cost millions to put a gas link in there but it would be a lot cheaper for people to heat their homes if they had that. Is there any government help for such a project; do you do anything through the Warm Front Scheme for such a project?

Ms Wallace: There is some incentivisation to companies—

Q58 Mr Touhig: To the companies, not to the community.

Ms Wallace: To the companies to encourage them to connect disadvantaged communities.

Q59 Mr Touhig: They have to be disadvantaged socially, economically, before they get any help.

Ms Wallace: The particular measure I am talking about applies in those cases but again we are trying to encouragement the development of other technologies that will offer other solutions to those communities, ideally low carbon solutions so that they are consistent with the way the world is going.

Mr Virley: If I may just add to that the new Community Energy Saving Programme will be trialling some whole house solutions in 100 deprived communities around the country and that we hope to start later on this year.

Mr Touhig: Thank you.

Q60 Mr Curry: I wonder if I can just come back to the rural areas and look at a category which we have not mentioned up to now, those that are on LPG. Are you aware that there is absolutely no competition in this market whatsoever, that you can swap suppliers of other products but here the LPG supplier puts in the tanks and then that is it. I have had cases of constituents who have wanted to swap suppliers and I have even gone as far as the competition authorities who say that they are not even interested in looking at the area. Could I ask—I am not going to ask you to reply off the top of your head—would you just have a look at that and let us have a note because it really is a very expensive form of energy and some people have no alternative?

Ms Wallace: I will look into it and we will give you a note,² but it comes back again to can we offer people more technologies by which they can heat and power their homes.

Q61 Mr Curry: I appreciate that but one forgets that if you put in an air pump you have got to keep the electricity on to keep the air pump working.

Ms Wallace: With some technologies that does not happen.

Q62 Mr Curry: Can I ask about first come first served? That is the same with the home improvement grants but what does it mean in practice, first come first served? Does a notice go in the *Craven Herald* saying on Tuesday at 12 o'clock a new tranche of Warm Front money is available, apply here? What happens to those who do not get it in one tranche, do they then go onto a waiting list or is every new tranche a free-for-all?

Ms Wallace: They basically go onto a waiting list, but I might ask Mr Varley to explain how it works.

Mr Varley: What we do, Mr Curry, is across the year we have an allocation of funding and when we have a look at that allocation of funding what we do is therefore determine the capacity we need in the marketplace and we therefore bring that back to how many homes we can help across a period of time.

Q63 Mr Curry: The expression “capacity we need in the marketplace”, can you put that into English for me?

Ms Wallace: Engineers, the people who can do it.

Mr Varley: What I mean by that is how many people we would need to go and do the work.

Q64 Mr Curry: Thank you.

Mr Varley: You see how many people you need to go and do the work, and we fit about one boiler every minute of every working day as an approximation. What we will do is people will apply to the programme and as they apply—given the customer group here are all vulnerable customers, so effectively what that means is that when they apply they will have a waiting list and they will then go on, and they will then have their central heating put in the house in accordance with when they applied to the programme. It is fair to say, Mr Curry, we are not inhumane in this, if somebody rings up and they have a doctor who says Mrs Smith is terminally ill or whatever, then we will do absolutely everything that is humanly possible to get that customer a heating system as fast as is possible, but in answer to your question first come first served means that we treat them sequentially.

Q65 Mr Curry: If you had somebody who had withdrawn from the Scheme because they could not meet the element they had to fund, would that make them ineligible for a future scheme?

Mr Varley: No.

Q66 Mr Curry: How would they rank in future schemes? Presumably they go away and say “We need to save some money”.

Mr Varley: With regard to customers that are required to pay a contribution to get the work completed, what they will do is their application would go on hold until they had the facility to raise the funds, and what we do is we try and work with installers and local authorities to really try and find that funding for them. We have managed to get about £2 million in funding from 26 to 28 local authorities to help, but to answer your question directly they would go on hold and, as and when the money was found from whatever source, their installation would be completed.

Q67 Mr Curry: Landlords can apply in respect of a property in which they have tenants, can they?

Mr Varley: Yes, they can.

Q68 Mr Curry: A landlord could apply for 20 properties in Birmingham?

Mr Varley: Technically the homeowner, the person living in the home, in conjunction with the landlord would have to do that.

Q69 Mr Curry: What, the landlord could fill in all the forms and get them signed by the tenant you mean.

² Ev 17

Mr Varley: It is the tenant who has the qualifying benefits that then enable the house to have an installation.

Q70 Mr Curry: The consequence could be—it is not a trick question—that landlords who owned a lot of property in northern cities—and they exist as we all know—could find themselves with significantly improved properties as a result of getting these grants.

Mr Varley: If all his tenants were all on qualifying benefits and qualified for the Scheme that is the case.

Q71 Mr Curry: He might be tempted to put the rent up subsequently because the property is cheaper to live in and more agreeable. What is your profile of people who get on the Scheme in terms of the type of household, in terms of people who are pensioners, pensioners living by themselves, people with young families, how does that break down?

Mr Varley: I have a list here of the qualifying benefits that people have across the programme. If I was to look at people who have Child Benefit, of the 600,000 or so who qualified, if I look at Child Benefit alone 23,000 of the approximately 630,000 had Child Benefit, Child Tax Credit would be 175,000. Of course, some people will be on more than one benefit but Child Benefit and Child Tax Credits in total were about 200,000 of let us say 600,000 households.

Q72 Mr Curry: The bulk are elderly people are they, as a generalisation?

Ms Wallace: Yes.

Mr Varley: Yes.

Q73 Mr Curry: And are they single elderly or normally couples?

Ms Wallace: For example, in the financial year 2007/08 just short of 270,000 households were assisted and a little over 100,000 were under 60 so 170,000 were over 60.

Q74 Mr Curry: Is there a tension—and it may be a necessary tension—between a scheme where the principal objective is to help people in need and a scheme where the principal objective is to help save the planet, if I can put it those epigrammatic terms? An elderly pensioner living by themselves will not have much of a carbon footprint, will they, compared with somebody with a young family?

Ms Wallace: I do not know about that actually because they may be in all day so they may have the heating on longer and we do not want people to think that they cannot have the heating on when they are in. The way I would put it is that actually quite often the goals of the department I am the permanent secretary of are complementary in that there are some obvious measures that will both help with fuel poverty and help save the planet, and actually we regard that as giving us better value for money rather than being something we are confused about.

Q75 Mr Curry: In this whole business of climate change and modifying our behaviour, there is a huge amount of exotic solutions around but there is something called, you know, the lowest hanging fruit.

Ms Wallace: Yes.

Q76 Mr Curry: Is the lowest hanging fruit for, let us say, a 70 year old widower any different to the lowest hanging fruit for any of the members of this Committee sitting around here or you?

Ms Wallace: I am not sure it is and this slightly relates to my answer to Mr Touhig that actually there are some things the Government recommends that everybody does—energy saving light bulbs, insulation.

Q77 Mr Curry: Insulation is the lowest of all the lowest hanging fruit, is it not?

Ms Wallace: Yes, it is an extremely effective thing to do.

Q78 Mr Curry: Would it make sense to make sure everybody gets draught excluders and you concentrated on an absolute blitz in draught excluders for a year, let us say, in terms of saving the planet. They are very cheap, they might even be able to install them themselves.

Mr Virley: Effectively the Government is currently consulting on a plan to make sure that all cavity walls and lofts are insulated and dealt with by the end of 2015, so in effect we are consulting on a plan to do exactly that at the moment.

Q79 Mr Curry: We have been around cavity walls again and, with all due respect to Mr Touhig, putting a new wall inside is a hell of a sight more complicated than it sounds when you account for windows and the rest of it. Roof insulation is a big one, is it not?

Ms Wallace: Yes.

Q80 Mr Curry: Window insulation, door insulation, all those basic things.

Ms Wallace: I just want to develop your point a little bit because in addition to Warm Front which is taxpayers' money going to vulnerable groups there is also the Carbon Emission Reduction Target under which the suppliers are obliged to help us, help the public, to do things to reduce our emissions, and they subsidise all manner of things including energy saving light bulbs, in order precisely to encourage all people to take the low hanging fruit. Some of that is also targeted but it also has general reach, and when people buy things in DIY stores they are very often subsidised through that scheme.

Q81 Mr Curry: Yes, I will not comment on the cost of some of these things.

Ms Wallace: I knew that by mentioning DIY stores I was tempting fate.

Q82 Mr Curry: If you want to buy a windmill you are going to buy it from an agricultural supplier, do not buy it on the high street. Energy saving light bulbs

become much more popular when you can actually see when you have them, that would greatly improve their popularity.

Ms Wallace: I am a big fan but you have to choose your brand.

Q83 Mr Curry: Can we just rapidly now look at the new technology you talked about? Solar is not a complex technology but it is still quite expensive and the payback is not an easy one, air heat pumps are not as obvious as people say and ground heat pumps are an expensive way of doing it unless your property is particularly situated and you have got to have land in order that you can put the stuff underground. The Report says that you are very cautious about embarking upon new technologies, particularly for vulnerable households; are we right in thinking that actually this is all very interesting and if we ever do get an eco-town all the new technologies will be doing a singing and dancing job, but in what you are dealing with you should forget it and should concentrate on doing simple things like getting things around the windows and around the doors.

Ms Wallace: I am going to ask Mr Virley to comment on this because he is also an expert on some of these.

Mr Virley: Your point is absolutely well-made that we should as it were make sure we cut the low hanging fruit first but we are going to need to develop renewable sources of heat and electricity, and the Government is now committed to introducing new subsidies to encourage the take-up of those. We have a system of feeder tariffs due to come in next year, a system of subsidies for renewable heat technologies, which would include some of the ones you mentioned, coming in in 2011, so the Government is committed to the take-up of those technologies, for both rural and urban customers.

Chairman: Thank you very much. Geraldine Smith.

Q84 Geraldine Smith: Is it right that eaga is the Scheme manager but can also have their companies, seven of their companies, carrying out the work as sub-contractors. Should that be right because it does not seem quite right to me that the Scheme manager should make £8 million profit and it has to go into a profit-sharing account with the Government to get some back to the taxpayer, but yet the really profitable bit—where they have an income of £95 million over one year and the £8 million was over two years—is the sub-contracting, the companies that do the work, and they do not have to profit-share.

Dame Helen Ghosh: Shall I start on that because it actually relates back to the original nature of the contract? There are two issues that you described, the question that under the original contract eaga has the right to use one of its own subsidiaries, a subsidiary company, for up to 30% of the work and, secondly—

Q85 Geraldine Smith: Could I ask how much does it use, does it use the full 30%?

Dame Helen Ghosh: As the Report suggests it is now using up to about 30%. The circumstances there were—and indeed this was an issue which the Government agreed with eaga at the time—if you think back to 2005, construction was booming, the economy was booming and it was very likely, we believed, that unless there was as it were an in-house supplier as well as the out-house suppliers you might well actually get nobody to do the work, so it was freely accepted at the time, and that was the nature of the tender document we put out, that that should be the case. It was perfectly proper at the time to have that 30% ceiling and allowance for them and, of course, as the Report explains, they had to live within what one might call the table tariff of charges. The issue of whether that is an appropriate level now, when circumstances are different, will be one of the issues that the mid-contract review that Moira referred to will look at. There is a second issue which is about profit share and, again, the idea that there should be a profit share was something that the NAO supported and, indeed, over time as again the Report highlights there have been some differences of opinion about interpretation and some reclaiming back of profit that has been made under the contract, but as Mr Varley has mentioned the profit share has meant £3.3 million plus going back in. Whether that is the right structure for profit share is an interesting different issue and we need to look at it because it is not obvious that if the subsidiaries and the parent company both had to contribute to the profit share you would necessarily get a higher profit being shared and that again is an issue we need to think of in the new contract arrangements.

Q86 Geraldine Smith: You are quite right, as you pointed out times have changed and there is a review of that contract and it should be about value-for-money for the taxpayer. I do not know what your views are but I think there is a conflict there when the Scheme manager who is managing the contracts is also involved in providing them; that seems a basic conflict of interest to me.

Ms Wallace: I know this is quite a controversial arrangement and it was set up in very different circumstances.

Q87 Geraldine Smith: But times have changed and we are looking at today.

Ms Wallace: We are looking at it again and we are looking at a renegotiation mid-contract. What I would say is that the prices that are charged are set by a competition in which the subsidiaries do not participate and we use our quality assurance assessors to oversee that competition, and the prices that are set are the average of what other people have bid. I do recognise the issue.

Q88 Geraldine Smith: I can only judge from my knowledge on the ground. I had a constituent who came to me; the cost of replacing a boiler meant that he was being charged over £3,000. He got me several quotes from local contractors who could have done the work far, far cheaper, I think it was something

like over £1,000 difference—it was an enormous difference in cost. That cannot be value for money and this particular person was being asked to make a contribution because they must have had some savings, which was why he raised the matter. I can understand why 75% of people might be highly satisfied because they are the ones who do not have to make any contribution, but there is 25% of people who do have to make a contribution and those people are not so happy because they look around and they see much cheaper prices. Okay, they may feel that they are getting a central heating system relatively cheaply but they still feel that there is a bit of a rip-off going on.

Ms Wallace: We get a number of allegations like that and we look into all of them, because the first question for us is if someone has had a grant from Warm Front, whether they have been asked to make a contribution or not under the law Warm Front can only refund jobs that have been quoted in accordance with the schedules that were set out at the competition. We have not found one that actually is at odds; sometimes it is not very easy to work out how it works but quite often there are significant differences between what someone sees quoted locally and actually the work that needs to be done when a qualified engineer looks at the property. Sometimes a new boiler needs to be put in and there are other modifications that need to be made to the system that actually are consequential but otherwise the system would not work, so often the new boiler turns out to be not just a new boiler. The other points that are relevant to this are that actually Warm Front jobs come with an aftercare guarantee, two annual services and breakdown cover which may not always be the case, so we are very happy to look at individual cases but—

Q89 Geraldine Smith: Sometimes people have problems with the aftercare. Some of the complaints we get—I guess the main complaint is the standard of workmanship and then sorting problems out afterwards. People, I guess, are not too bothered about the prices because most of those people are not paying anything, so I can understand that, but it is whether the taxpayer is actually getting good value for money. As I say, from my view on the ground looking at it the prices seem extremely high. Can I ask the question, would you not be better off just giving people a lump sum grant to get the work carried out themselves and get them to come up with quotations?

Ms Wallace: There are a number of things that are relevant to that. First of all, the work is tendered by eaga and the prices that were set and the companies that got the contracts were the ones that quoted the cheapest rates. Secondly, I cannot rule out that there are people who, particularly in the current circumstances, are quoting lower prices, and that is one of the reasons that we are doing this mid-contract renegotiation because the market conditions have changed radically since the prices were set, so we are very interested, as are eaga, in seeing whether we can get a better deal or not.

Q90 Geraldine Smith: Some of these prices I am talking about were when the market was pretty high and there was a lot of work around.

Ms Wallace: I just want to say that we are here because of an NAO Report that quotes two separate studies, one by our quality assessors and one by the BRE, which is an independent body, which actually compares like for like and has tried to compare the Scheme specification with market prices and has actually found the prices in most cases to be competitive and often better than that, but that is not to say that we are not looking to see if we can do better both in terms of quality and in terms of price because obviously we are.

Q91 Geraldine Smith: Can I ask eaga finally what are you going to do to improve your customer service and your aftercare? I do not like the fact that I have to sort out so many issues for constituents, I do not think they should have to come to their MP, you should have sorted it out earlier. We have seen a letter and photographs showing quite poor workmanship, so there is an issue here and I want assurances from you that you are aware of that and you are going to address it.

Mr Varley: You are absolutely right, we do not always get it right and I know it is my job to make it better and to put that right. The complaint rate is about 0.5% across the Scheme and on every single one of those jobs that I find where it has not been done correctly I will absolutely make it my job to go and put it right. They are not just words, we do go and put it right but I can only put it right when I know that it has gone wrong. We are putting in place improvement programmes with our sub-contractors and with all our installers to ensure that there is a renewed focus on making sure that the customer is at the heart of everything they do, that they are going out there and they are ringing the customer and we are absolutely checking that. We operate a rigorous installer ratings system which looks at a number of things. It looks at how long it has taken to do the work in the first place, how long from the point that the customer applied, the waiting times, but what we also look at is the complaint rate of installers and the amount of work that they get is predicated on those two things, which is around getting a quality and a timely service to these customers that need it. I know we can improve, I am absolutely committed to improving and I know it is my job to make sure that that happens.

Q92 Mr Carswell: We see in the Report that customers are not able to obtain an alternative quote from other suppliers. In any market when you constrain the seller in terms of trade surely this restricts competition between contractors which must, by definition, mean higher prices being paid to do the work.

Ms Wallace: A number of things apply here. There has been a competition; this is a very large-scale programme and it dealt with 270,000 homes last financial year. If you imagine 270,000 households

having to do an individual competition and work out which is the best estimate, a lot of people would not want to do that.

Q93 Mr Carswell: It is competition at a big corporatist level.

Ms Wallace: At a regional level.

Q94 Mr Carswell: It is a bureaucratically-administered competition process.

Ms Wallace: It is a large-scale contract which, according to the NAO Report we have before us, has actually achieved competitive prices. Can an individual in the particular circumstances of the time when they do it, their local market or what they are prepared to compromise, can they get a better job? Perhaps they can, and actually the Scheme does allow individuals to get a second quote but if they do get a second quote they then also have to pay for a second survey; the amount that has gone into surveying them for the first quote is knocked off their grant and that does deter people from getting a second quote, but they can and some people do.

Q95 Mr Carswell: Looking at figure 8, the percentage of applications exceeding the maximum grant, who have had to basically stump up cash themselves, has gone from under 10% to 25% in two years. Does that not suggest that it might just be the case that what is happening is you are bumping up the costs and the prices of getting this work done and, in effect, the price has just been jacked up, there is not downward pressure on margins?

Ms Wallace: Two things: first of all the maxima have not been increased for three years so naturally since the prices have gone up you would expect more people to have to make a contribution. The Report actually says that the prices have risen by less than the RPI. I can tell Mr Varley is dying to come in though.

Mr Varley: The prices on the Scheme have gone up by between 2% and 9% and RPI has gone up by 11% across the period. The reason so many people are having to now make a customer contribution, one of the primary reasons, is because they are returning to the Scheme for a second time. Approximately 29% of the people that have to pay a contribution are people who have had previous work done under a previous Warm Front programme, potentially in 2000 to 2005; therefore they have already had an element of their grant spent, and then when they return they clearly have less in their grant available to spend. That is one of the key reasons why the level has increased from just under 10% to 25%.

Q96 Mr Carswell: Rather than corporatist commissioning would it be possible to have a scheme where you had self-commissioning if you like, whether it was a grant or a voucher, something that allowed the individual householder to commission the work themselves. Would that not be an improvement?

Ms Wallace: You could; it would mean that a lot of individual householders were then facing the question of finding someone who could do this work and working out whether that person was reputable. One of the things we have to take into account when we are considering people's experience of the Scheme compared with doing it by other means is that many people's experience of doing it by other means is not that happy either, and I am sure all of us have had experiences of that kind. So it is not as if this is something that always goes smoothly but does not when it is done by Warm Front. I am very happy for Mr Varley to talk about how he thinks that would work.

Mr Varley: Mr Carswell, the people that we go into the homes of, these vulnerable families—and I know you see them in your constituencies—about a third of these people cannot read or write. We go into their homes and they need help, and what we do is we provide that assistance to talk them through the process, we ensure that they have a robust system in their home which will work and then we provide a breakdown and aftercare service to ensure they keep warm.

Q97 Mr Carswell: A lot of would-be suppliers in my constituency have approached me to say that they feel that they are not allowed to have a fair share of what is—£852 million—a lot of public money. How can you advise me to advise local contractors how they could possibly bid for the work? Do you not think that perhaps eaga should review how you dish out the work and set up a scheme that is more open to small would-be suppliers who could deliver, perhaps, even more cheaply than the companies that do deliver?

Mr Varley: I understand exactly where you are coming from. We are actually going through a sub-contractor re-tender process at this moment in time—

Q98 Mr Carswell: That is a yes.

Mr Varley: Yes, we had 1700 applications and we do take people on if they meet the criteria during the process. We have taken on six across the last year and indeed we have written to yourself and a number of colleagues to say if you do have them please let us know who those good installers are and we will have a look at them. What we cannot compromise on are the health and safety standards of that installer, whether they are financially stable and the quality of work. They are the three key hurdles that we expect installers to get over before they can get onto the Scheme, but in answer to your question, yes, I will absolutely have a look at them.

Q99 Mr Carswell: Eaga must be very keen to keep this contract; it is worth a lot of money. Do you spend a lot of money lobbying opinion-formers, politicians and civil servants to try and keep the contract?

Mr Varley: No, we do not. The Warm Front programme is one of 150 contracts we have. It is a very important programme to have and we have

worked with DECC, Defra and the predecessors for 18 years in this very field. It is a contract that we want to work on, we absolutely agree with its intent and the great work it does so, yes, absolutely we want to keep it, but do we lobby excessively for that? No, we do not in the way that you are implying.

Q100 Mr Carswell: Just a final question to both the permanent secretaries; does anyone in your department ever accept hospitality from eaga?

Dame Helen Ghosh: I should say not as far as I am aware and that is thinking, for example, of the last hospitality return that we made via the Cabinet Office for the Scheme. I am not aware of having done so but I am very happy to check and come back to you. **Ms Wallace:** I am not aware of any either. We met yesterday and you got lunch from us, it was a working meeting. I am not aware of any but if we find differently we will tell you.³

Mr Varley: We have never asked, I know we have never asked.

Q101 Chairman: I am not sure what is worse, them paying for lunch or the taxpayer paying for it.

Dame Helen Ghosh: Perhaps Moira paid for it.

Ms Wallace: Yes.

Q102 Dr Pugh: Can I first of all preface anything I have to say of a critical nature by saying generally speaking the Scheme is good, it is appreciated and it does a lot for vulnerable households and presumably also for the environment as well. Some of the criticism, the kind you get on the *One* show relates to the small percentage of work that has turned out unsatisfactorily and that is largely over issues of billing rather than issues directly of quality, although sometimes quality enters into it. I sensed that when Geraldine Smith opened the topic of sub-contracting and so on there was an intake of breath and a rush to get into answering the question quickly, as though you had expected it, so you must expect us to some extent to probe in this area. With regard to the 30% of work that eaga gets it actually says in the NAO Report it was not clear in the original contract whether this 30% applied to the value of the work or the quantity of the work. Whose fault was that?

Dame Helen Ghosh: I suppose I would have to put my hand up and say it was somewhere between my own department, eaga themselves and our professional advisers, but in practice—and again this is common with contracts of this length and on this scale—we have come to an understanding and as the Report finds it is clear what the limitation level is and the company is operating within it.

Q103 Dr Pugh: It is value.

Dame Helen Ghosh: It has to be value for the reasons that Moira described. It is not the case that the eaga subsidiary can charge any more than the table rates

and indeed they were excluded from the original calculation precisely so that they could not influence what the table rates were.

Q104 Dr Pugh: Am I right in understanding that the profit-sharing arrangement does not apply to the sub-contracting work, and was that understood at the start?

Dame Helen Ghosh: That was understood at the start, clarified in the course of the development of the contract and, back to the comment that I made earlier, it is one of the issues that the mid-contract review will be looking at. It sounds as if it were simple to say if you extend into the contract the level of profit-sharing the taxpayer, the customer, will get more profit out of it, but in fact if you follow the various possibilities through that is not necessarily the case, but it is something we shall be looking at.

Q105 Dr Pugh: Why if it was understood at the start did eaga pay you some money back? What had happened there—it says somewhere there was an adjustment or a calculation, am I right in saying that is in the NAO Report?

Ms Wallace: Yes, it is.

Mr Gibby: It is around the calculation of the profit-share.

Dame Helen Ghosh: It is the calculation of the profit-share. Sorry, some of the work that we subsequently did to clarify the nature of the profit-share revealed that some of the calculations we had done in earlier years had not been done correctly, according to the contract as we by then understood it. I think the figure is something like £632,000 that came back to the taxpayer, so in so far as there had been a misunderstanding we corrected it and we put the money back into the Scheme.

Q106 Dr Pugh: It was understood at the start that there was a misunderstanding.

Dame Helen Ghosh: Yes.

Mr Varley: Yes.

Q107 Dr Pugh: That is a contradiction; never mind.

Dame Helen Ghosh: No, I think what I said was as with all contracts—or with most contracts that I have had anything to do with—there are always some ambiguities. This was one and we have worked our way through to a satisfactory and a common understanding and actually the taxpayer/customer has lost nothing.

Q108 Dr Pugh: I do not mean to be over-critical but these do strike me as rather big misunderstandings or the necessity of clarification post-contract strikes me as somewhat surprising, the extent to which you need to do it, but nevertheless, let us pass on. The really profitable bit, the contracting, is obviously in the actual boiler replacement and I note in the Report at 3.6 that labour costs have gone up by 9% and the NAO themselves say somewhere that oil boiler replacement is at the higher end of the range.

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Do you know what kind of profit margin contractors in general make on boiler replacement in terms of the difference between the wholesale and the retail price?

Mr Varley: In terms of oil replacement, just so I can clarify the question?

Q109 Dr Pugh: If you buy a boiler and then you install a boiler there will be a difference, probably, in the price to you and the price to the customer; what is the difference?

Mr Varley: The price to ourselves for a boiler is passed straight through to the Warm Front programme so on the actual boiler itself we make no margin or no profit at all as a business. I do not know whether I fully understand the question but that is the answer.

Q110 Dr Pugh: The boiler gets transmitted at the price at which you buy it.

Mr Varley: Absolutely, because the contract until recently has been with the department for the boilers, it has not come through eaga.

Q111 Dr Pugh: Am I right in thinking it is rather a Henry Ford-like principle, there is only one boiler and that is the Ideal boiler, is that right?

Mr Varley: The boiler of choice on the Scheme is the Ideal boiler but in certain circumstances a qualified engineer may determine another boiler is more appropriate. The boiler that is largely used is indeed the Ideal boiler.

Q112 Dr Pugh: Why was the Ideal boiler chosen?

Mr Varley: The department led a procurement process and determined that that was the chosen boiler on the Scheme; I would imagine it was because it was the best boiler that was most appropriate at the time.

Dame Helen Ghosh: The most efficient boiler that hit both the fuel cost target and indeed CO₂ and other emissions targets.

Q113 Dr Pugh: Are Ideal boilers procured from a variety of suppliers?

Mr Varley: No, the Ideal boilers are procured from Wolseley through Plumb Centre. When the department ran the contract and awarded eaga the contract as main contractor, at the same time the department awarded a contract for the supply of boilers to Wolseley Plc.

Q114 Dr Pugh: Is it the case that for as long as Warm Front continues Wolseley can look forward cheerfully to consistent business?

Mr Varley: It is fair to say that like eaga has a five-year contract with a potential extension of plus an extra two years, that is the same situation with Wolseley and while, as the permanent secretaries have quite rightly said, we are in mid-term negotiations with the department—

Q115 Dr Pugh: I am in absolutely no position to comment on the values of individual boilers, I just think a competitive market for boilers is probably quite a good thing.

Mr Varley: If I may, Dr Pugh, the boilers are passed through the Scheme, we absolutely manage Wolseley in terms of driving them down and getting good prices for our boilers, and that is something that we continually review on a month-to-month basis through our relationships with them.

Q116 Dr Pugh: If they were poor boilers—and I am not suggesting for one second they are—and they have a finite life span and they all go wrong at the same time, all these people who have been provided with Ideal boilers for a number of years will all suffer the same problems at the same time, will they not?

Ms Wallace: If I may come in there is an interesting balance here because there is an argument and that is the argument for diversification. There is also an argument of economies of scale and simplicity of training, and those have to be balanced. It is perfectly possible for us to look again at the pros and cons as we go forward because we are re-negotiating in the middle of the contract but actually the whole contract comes up for renewal next year, and so we have all sorts of options as to what positions we take then.

Q117 Dr Pugh: Could I just tempt you to comment a little bit on the economies of scale? Clearly it is Ideal boilers or nothing and therefore you must have had a very good price for Ideal boilers as opposed to any alternative. Are you able to tell us the difference between the Ideal boiler price and the price of the next best boiler?

Dame Helen Ghosh: I suspect we would not want to give you that price as we are in open committee.

Q118 Dr Pugh: But you will send us a note?

Dame Helen Ghosh: I think we would be happy—this will be among, as it were, the records of my Department—to let you know what the—

Q119 Chairman: Why not? It is a perfectly interesting question, it is of general public interest.

Dame Helen Ghosh: With a number of these issues actually there are commercial in confidence issues.

Q120 Chairman: It is a very interesting question.

Dame Helen Ghosh: I am very happy to give the Committee that information but we do not have it on us.

Chairman: I do not see why it should not be public, to be honest with you. As long as you do not mention individual contractors. It is a very broad question and it is interesting.⁴

Q121 Dr Pugh: My last question is that there has been some issue about whether you are using sufficient numbers of local contractors. Certainly I have boilers replaced in my constituency which is on

one side of the country by plumbing firms on the other side of the country, which slightly surprises me. Do you keep records of the number of small to medium sized enterprises you have used—obviously they have to be a certain size to pass the test and meet the criteria—and their locality?

Mr Varley: All our installers are local installers. In fact, in the tender I was talking to Mr Carswell about just before, we have put in a stipulation that all our contractors will be within one hour drive of a customer. They may have a head office somewhere which is not in the locality. Are they all SMEs? I am afraid I do not have the data as to the proportion of the 140 that we have, but what I do know is that some of them only work in some of the areas, not all of them work in all the areas, so by their very nature there will be a significant number of SMEs in there. I am afraid I do not have to hand the exact proportions, but I am happy to provide it to you if you would like.⁵

Dr Pugh: Thank you very much.

Q122 Mr Mitchell: I must say I am a supporter of the scheme, and it seems to have worked well in Grimsby, which is a cold place. The complaints voiced in Help the Aged are the main kind of complaints I get. This is a problem, presumably, because your entitlement, eligibility levels and maximum grant levels have not been increased. The grant level has not been increased since 2005, has it?

Ms Wallace: That is right. I must also make the point that Mr Varley made a moment ago, which is that the grant levels are also biting on people because some people are coming back for extra help having received money from the scheme before, and that reduces their entitlement now.

Q123 Mr Mitchell: That is a shame. I do not know what was announced in the Pre-Budget Report but extra help was promised you there. Will that solve the problem or not?

Ms Wallace: Extra resources were put into the scheme last autumn, and that enables us to help more people and enables us to help them sooner, which is all good news. Our Ministers have indicated they are thinking about raising the grant maxima but they do not wish to reach a decision about whether or by how much until we have come to the end of the mid-contract renegotiation, which we have referred to a couple of times, because clearly the prices and what you can get within a maximum grant are related. They want to satisfy themselves on that and then make a decision on the grant maxima.

Q124 Mr Mitchell: One complaint which has been raised, and it is anecdotal in a couple of cases, is that people have said that they have been told they were entitled to a couple of light bulbs and gone away again. Is that likely?

Ms Wallace: It partly depends on what kind of house it is, what kind of energy supply it is and whether the things it needs can be catered for.

Q125 Mr Mitchell: Are these the European light bulbs which the *Daily Mail* loves so much? The ones which are going to poison the population of this country through mercury?

Ms Wallace: I have not thought of calling them European light bulbs, but I shall in future. We have touched on this earlier but one of the reasons they are provided is that they are a very effective way of saving money.

Q126 Mr Mitchell: Why are you pushing light bulbs on to people?

Ms Wallace: They are free and they will save them money.

Q127 Mr Mitchell: Paragraph 2.11 tells me that £4.9 million still being spent on low-energy light bulbs; draught proofing—£10 million; tank jackets—£0.3 million. These are really measures to reduce carbon emissions rather than to warm the house up, are they not?

Ms Wallace: They will not warm the house—

Q128 Mr Mitchell: Low-energy light bulbs do not do much. They give so little light, you are blind.

Ms Wallace: They reduce your bills—they do reduce carbon as well—by we think about £30 a year, which is worth something to everybody. The Government recommends that everybody does that and it certainly recommends that the fuel poor do it. These are provided free, so they are a saving. The scheme does not do this for preference instead of things which would be more effective, but it does do it where there is nothing else it can recommend or do, possibly because the house is on the grid, possibly because of the kind of house it is.

Q129 Mr Mitchell: Okay. You have got presumably an increase proportionately in the number of people who are asked to pay extra, above the cost of the work. I see the average over three years was £487 but in 2007-08 the average was £581 extra. What is it now?

Ms Wallace: I do not think we have a more up-to-date figure, unless any of my colleagues can help.

Q130 Mr Mitchell: If you have a figure, could you give it to us?

Ms Wallace: We would if we have it.⁶

Q131 Mr Mitchell: Because that must be a major deterrent, and the deterrent must be increasing. Is that the case?

Ms Wallace: It is an issue for some people. The report itself quotes some statistics, which are relatively small compared to the number of people, of whom a contribution is asked, but there are some statistics for people who have decided to withdraw from the scheme or do something less expensive, or who have not made a decision yet. We are obviously worried about that. As I said earlier, we are thinking about raising the grant maxima but Ministers are

⁵ Ev 18

⁶ Ev 18

not going to make that decision until they have finished the mid-contract renegotiation which may have a bearing on what the right answer is there. It is also worth saying that there are other sources of help available to people who are asked to make a contribution. Mr Varley might be able to make a comment on this.

Mr Varley: Absolutely. We help through the local authorities. We approached about 28 local authorities which have given us a total pot of just over £2 million. It is also fair to say a number of our installers will also provide contributions to help customers pay. I do not know what the total is across the whole population. I can tell you our in-house installer, which has been referred to.

Q132 Mr Mitchell: It would be useful if you could tell us what local authorities are contributing and helping as well.

Mr Varley: I can provide that.⁷

Q133 Mr Mitchell: A further deterrent must be Mrs Evans' letter, which you have got. Her house is festooned with piping all over the place. Are people told at the start, "We don't cover the piping"?

Ms Wallace: I do not know.

Mr Varley: When the technical surveyor goes round and has a look at it, they will talk about what it will look like—where the boiler will go, where the pipes will go—and we agree with the customer where we will run the pipes.

Q134 Mr Mitchell: Could the customer not require that the pipes are covered up?

Mr Varley: At the moment, Mr Mitchell, that is not part of the requirement of the scheme.

Q135 Mr Mitchell: That means the houses of the poor are going to be festooned with throbbing pipes all the time, whereas we, middle-class people, live in beautified houses with pipes concealed.

Mr Varley: It is something we can have a look at as part of the scheme specifications.

Ms Wallace: It is something which has not been covered by the scheme. We have talked about a number of potentially rather hard decisions, about how to get more help to the people who need it most, and one of the things which has not been included has been the cost of boxing in. It is a difficult decision because it would cost I think—

Q136 Mr Mitchell: Is it not a further deterrent? Do you get people saying, "No, I'll not bother" when they are told the house will be hung round with pipes?

Mr Varley: I do not know of any instances where the customer has cancelled because the pipes are not boxed in. These are of course vulnerable people who, as you quite rightly know, quite simply want heating in the house. As Mrs Evans says here, she is really pleased she is warm, "I am grateful for the warmth

and making me warm", but I do acknowledge that the pipes would look better boxed in. I understand that.

Q137 Mr Mitchell: Mrs Evans has clearly had the neighbours coming in saying, "Eeee, look at all those pipes. It's ugly, isn't it"! They're right, it is. Let me move on. There is an illustration on boiler replacement which I cannot understand, which has hexagons all over the place; illustration 14. The text tells me that boiler replacements are more expensive than they should be, and that is oil boilers and gas fired central heating boilers. Why is that?

Mr Varley: Firstly, Mr Mitchell, I am not sure the report actually does say that. What it says is that they are within the range of competitiveness and towards the higher end of that range. I acknowledge that.

Q138 Mr Mitchell: Yes, the higher end. Why is that? Because they are more expensive boilers when you are replacing them or because of the ancillary work which has to be done?

Mr Varley: If I look at the gas boiler replacements, what is important to recognise here, as indeed the NAO do in this, it is really hard to compare the specification on the Warm Front Programme with the specification that the BRE undertook here; it was difficult to undertake that analysis. What they have said is that it is competitive and we are continually trying to address the prices on the scheme and drive down that for value for money, but they have said it is within the range of competitiveness and it is difficult to provide an exact comparison.

Q139 Mr Mitchell: One other thing which appears from the Report is that there is a duplication of effort. Table 7 on page 16 shows that there are lots of other schemes which are doing similar kinds of work, principally the Decent Homes Standard, which we are committed to reach by 2010 although we probably will not. Do you co-ordinate that, because that requires efficient central heating, does it not?

Ms Wallace: I will say a little bit about it and then I will pass over to Mr Varley. The Decent Homes Standard applies to social housing and Warm Front applies to privately-owned housing.

Q140 Mr Mitchell: In that case, I will stop you there. The other overlap seems to be with Warm Zones. I have no doubt if we have a tough winter next year we shall have another scheme coming from the Government called Warm Bums or something!

Ms Wallace: We have not actually called it that but we do have another scheme!

Q141 Mr Mitchell: And there will be another overlap there. You do overlap with Warm Zones?

Ms Wallace: I will suggest Mr Varley talks you through this because the Government is actually in the process of thinking about how all this should be organised.

⁷ Ev 18

11 March 2009 Department for Environment, Food and Rural Affairs, Department of Energy and Climate Change and eaga plc

Mr Virley: The names are similar but the schemes are not.

Q142 Mr Mitchell: One is a charity, is it not?

Mr Virley: Yes. One is an organisational structure which exists at local level.

Q143 Mr Mitchell: Can you not co-ordinate better?

Mr Virley: One of the things we are looking to do in our proposals on the Community Energy Savings Programme is actually to bring all this together in terms of the help for deprived communities, and that is a new programme which starts later on this year. The funding for Warm Zones often draws on Warm Front money, so there is actually co-ordination between the funding streams, but Warm Zones is not a funding mechanism, it is just an organisational structure that exists in certain local areas.

Q144 Chairman: Thank you. That concludes our hearing. There are a number of worrying things about this, not least that customers, as we read in paragraph 2.2, were not necessarily aware that the

grant does not cover the hiding or boxing-in of pipes and wiring. I think Mr Varley you agreed that people should be made aware of this. But there are some even more worrying things about this. There is a target, which we have hardly mentioned. In 2006 there were nearly 2 million households in this situation of fuel poverty, since then fuel prices have gone up, and there must be a grave doubt whether you are going to meet your target of eradicating fuel poverty in vulnerable households by 2010. It is true a lot of people are satisfied with the work which happens, but a lot of these people who are satisfied are not actually in fuel poverty, and it is very worrying that half of the generally fuel poor are ineligible to help. So there is a lot of very worrying things about this. We are a value-for-money committee and this is very much a blunt instrument. I know, Ms Wallace, you explained to us, that it is fearfully complex to get this right, but we will be making a number of recommendations and I hope this time you take them seriously. That concludes our hearing.

Ms Wallace: Thank you.

Supplementary memorandum from the Department for Environment, Food and Rural Affairs, Department of Energy and Climate Change and eaga plc

ISSUES RAISED DURING THE PAC HEARING ON THE NAO'S VALUE FOR MONEY REPORT ON THE WARM FRONT SCHEME ON 11 MARCH 2009

Question 60 (Mr Curry): *Liquefied Petroleum Gas (LPG)—market place and competition*

During the hearing, Mr Curry asked the Permanent Secretary to look into the lack of competition into the supply of LPG to domestic dwellings.

In 2004, the Competition Commission (CC) was asked to look into the supply of LPG for domestic use in the UK. The reference was made following a number of complaints in relation to pricing LPG, the difficulty of switching between suppliers and other aspects of the relations between customers and their suppliers.

The CC's report published in 2006 found that there are features of the markets for the supply of domestic bulk LPG which adversely affect competition and concluded that the large majority of LPG customers are paying higher prices than would be the case if these features did not exist. A copy of the CC's report and supporting papers can be found at www.competition-commission.org.uk/inquiries/current/gas/index.htm

Since 2006, the CC has been working on a package of remedies which they believe would be both effective and proportionate in remedying the various features of the domestic LPG market identified as having an adverse effect on competition. These cover:

- (a) tank transfer, including a customer's right to request tank transfer, an incoming supplier's right to buy the existing tank from the outgoing supplier, and incoming suppliers being given the opportunity to negotiate a price for a tank with the out-going supplier, but an obligation on the outgoing supplier to sell for a "backstop price" determined by a methodology;
- (b) standardization of, and improved information on, the switching process;
- (c) changes to customer contracts, including notice periods of no more than 42 days and exclusivity periods of no more than two years; and
- (d) improved information on suppliers and their offers.

The CC have now confirmed that these remedies should be implemented by way of an Order which will come into force on 13 April 2009 and will apply to all suppliers of bulk LPG for domestic use.

Question 100 (Mr Carswell): *Hospitality received by officials from eaga plc*

All of the staff involved in managing the Warm Front contract and working with eaga plc are aware of and abide by regulations governing the acceptance of hospitality from suppliers.

We can confirm that no officials within DECC or its predecessor departments received hospitality from any of the eaga group of companies in 2005–06—2007–08. Two officials were however given permission by senior management to attend a preview performance of the eaga sponsored Pitman Painters in Newcastle during the in 2008–09. The performance coincided with a planned management visit to eaga plc, whose headquarters are located within the city.

Questions 111–120 (Dr Pugh): *Price of Ideal boilers compared to the next best boilers*

The Ideal boilers selected for the Scheme by Defra all met stringent performance criteria in terms of being highly efficient and reliable at the tender stage. Additionally, the boilers all accepted by the Grant Aided Heating Installers Network, GAIN, as being the most reliable boilers in the market at that time.

The purchase of boilers for use on the Scheme is made from Wolseley plc and no profit is made by eaga in their procurement. The two most common boilers installed under the Scheme are the Ideal ISAR 24HE Condensing Combi and the Ideal ISAR 30 HE Condensing Combi. A comparison of the price of these boilers has shown that:

- the prices obtained under the Scheme are 5% (for ISAR 24HE) and 8% (for ISAR 30HE) cheaper than the average price for the next three comparable boilers manufactured by Worcester, Baxi and Vallant; and
- the prices obtained under the Scheme are £447 (for ISAR 24HE) and £518 (for ISAR 30HE) which is significantly cheaper than the “trade list” prices for these boilers.

Question 121 (Dr Pugh): *Proportion of SMEs on the subcontractor framework*

eaga has reviewed the publicly available information contained at Companies House for the Scheme’s current installers. This analysis showed that 72% of registered installers on the Scheme would be classified as a small or medium sized company under the Companies Act.

Questions 129–130 (Mr Mitchell): *Average amount of excess payments currently*

The most recent figures for the current financial year show that the average client contribution requested is £571. The average client contribution for completed jobs is £476.

Questions 131–132 (Mr Mitchell): *Local authorities contributing to customer excess payments*

eaga has generated a number of relationships with local authorities in relation to the funding of customer contributions. In the current financial year to February 2009, funding totalling £1,542,000 have been secured from 33 local authorities. The contribution made by each local authority is listed below.

<i>Local authority</i>	<i>Funding of client contributions April 2008 to February 2009 (£000)</i>
Birmingham CC	77
Blackburn with Darwin BC	11
Bolton MBC	22
Brentwood BC	14
Brighton & Hove CC	61
Burnley BC	9
Bury MBC	80
Castle Point BC	63
Derwentside BC	37
Eastbourne BC	20
Gravesham BC	22
Knowsley BC	154
Leeds CC	65
Lincoln CC	24
London Borough of Camden	2
London Borough of Hammersmith	1
London Borough of Hounslow	239
London Borough of Lewisham	29
London Borough of Newham	43
Maidstone BC	18
Oldham BC	12
Peterborough CC	93
Redcar & Cleveland BC	9
Sedgefield BC	1
South Kesteven BC	100
St Helens CC	53
Stockton on Tees BC	10

<i>Local authority</i>	<i>Funding of client contributions April 2008 to February 2009</i>
	<i>(£000)</i>
Suffolk Coast District CC	56
Swale BC	51
TADEA ¹	17

It should be noted that other arrangements may be in place locally between individual installers and local authorities in respect of the funding of client contributions which would be in addition to the figures set out above.

Memorandum from Age Concern England and Help the Aged

- The current number of outstanding Warm Front applications is 106,179.
- The total number of customers who have paid a top-up contribution in the last three years is 130,799.
- The average customer contribution over the last three years was £487.28, and was £581 in 2007–08.
- Of customers that were asked to pay a top-up, 20,491 did not proceed with the work.

Age Concern and Help the Aged want to use this opportunity to brief the Committee members ahead of the evidence session on Warm Front. We have some serious concerns over both the funding of the scheme and its capabilities in delivering for older people in fuel poverty and welcome the Committee's enquiry into the Warm Front scheme.

Age Concern and Help the Aged have long campaigned on issues of fuel poverty and the need for changes in the Warm Front scheme to help tackle this. In the long term the only way to tackle fuel poverty is to develop a new fuel poverty strategy based on a nationwide drive to improve the energy efficiency of the housing stock. In the meantime, the Government must intervene to tackle the worst failings of the energy market and reform the Warm Front scheme. Such action would be strongly supported by the public—our research shows that almost 80% of people think that the Government should intervene in the energy market to ensure the poorest customers do not pay more for their energy.²

Age Concern and Help the Aged have welcomed the additional funding for Warm Front announced as part of the Home Energy Savings Programme and in the Pre-Budget Report. However, we have strong evidence that the scheme is failing the poorest and most vulnerable households living in fuel poverty. Age Concern has received more than 5,000 complaints about Warm Front in the last year alone.

The most common problem is that the maximum level of the grant available under the scheme—which has been frozen since 2005—often fails to cover the cost of the work needed and applicants are therefore asked to pay top up fees.³ Our research shows that pensioner households are being asked to pay top ups ranging from £200 to £2,000, sums that many of the poorest and most vulnerable applicants are unable to afford.⁴ As a result, thousands of applicants do not proceed with the work, leaving them to continue suffering in fuel poverty and undermining efforts to reduce carbon emissions. The Secretary of State at the Department for Energy and Climate Change, Ed Miliband MP recently highlighted this point when giving evidence to the Energy and Climate Change Committee;⁵ stating that “The level of the maximum grant has been at £2,700 for three or four years now. I personally think it needs to be raised and we are looking at the levels it needs to be raised . . . We need to act on that and we are going to be doing so in the coming weeks.” He also went on to highlight the need to improve the quality of work that is carried out through the Warm Front scheme.

The National Audit Office report on Warm Front highlighted the failure of the scheme to effectively target those living in fuel poverty.⁶ We hope the Government will be in a position shortly to signal its intention to raise the maximum level of the grant and introduce greater flexibility into contracting arrangements to keep costs at a minimum. In line with the NAO's findings, eligibility for the scheme should also be reviewed so that it better targets the poorest and most vulnerable households living in the least fuel efficient properties.

¹ A not for profit company set up by Stockton BC and other councils in the North East to increase the sustainability of communities through increased insulation and the use of renewables in their areas.

² Age Concern/ICM polling, October 2008.

³ The maximum grant available is £2,700 for the majority of properties and £4,000 for those with oil-fired central heating systems.

⁴ See *Lemonade quality for champagne charges*, Age Concern, 2008.

⁵ Energy and Climate Change Committee, 25 February 2009.

⁶ *The Warm Front scheme*, National Audit Office, HC 126, Session 2008–09, 4 February 2009.

We are calling for the ceiling on the Warm Front grant to be increased, that greater flexibility should be incorporated into contracting arrangements and eligibility for the scheme should be reviewed so that it makes a stronger contribution to tackling fuel poverty.

11 March 2009

Memoranda from Mrs Carole Evans

Dear Sir

I have sent these pictures of our installed Warm Front central heating for your comments. We were very pleased to have the central heating installed, but I must say I was disappointed with the finished look. Have tried to make less obtrusive by painting but still unsightly.

We have had occasion to have various trades in lately and they have all commented on the look of it and when we told them how much it cost you they couldn't believe it, so overpriced. When the firm were installing the heating I did say I was not happy about the pipes being surfaced mounted and they said that was how it had to be for the price. As we were not paying and we were lucky to be getting central heating I accepted that was how it had to be. It was only when people who know how much these things cost and how it could be done so much better commented. I thought you should know.

When a man from Warm Front came to inspect the finished work he asked if we were happy with it, so I explained that we were not because of what I have described and even he said he would not like to live with it!

As I said before we are happy to have central heating, its lovely and warm, especially with the winter we have just had, and we are grateful, but think you are being overcharged for the standard of work.

Yours sincerely
Carole Evans (Mrs)

Dear Sir

I sent an e-mail earlier today with photos. I didn't mention in my previous one how much the work was. I'm afraid I can't find the letter at the moment but I know we were granted the full amount and then my landlord had to pay an extra £230.18, bringing it to over £3,000.

Yours sincerely
Carole Evans (Mrs)

11 March 2009





