

Energy Affordability in the UK: Corrected Energy Expenditure Shares 1992-2014

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BACKGROUND

- The UK energy market is highly politicised and over the past 20 years successive governments have pursued policies intended to improve the affordability of energy for specific groups.
- This paper places the political debate and policy developments in context by analysing the share of household expenditure devoted to energy across different households and through time.
- We pay particular attention to two significant government policies: (i) the Winter Fuel Payment, an income benefit targeted at older households, and (ii) the Fuel Poverty Strategy.

METHODOLOGY

- Data from the Living Costs and Food Survey (and its precursors) are used to form an annual time series from 1992 to 2014, with additional observations in 1977, 1982 and 1987.
- We note a significant issue with the recording of energy expenditure (ENEX) by households with pre-payment meters prior to 2013 in this dataset. By the mid-2000s, the ENEX of almost 50% of households with a pre-payment meter appears to be 'missing'.
- We apply a new correction for this issue, noting that the data problem has affected earlier studies which have likely under-estimated the average ENEX of many low income households.
- Using the corrected data, we map energy expenditure shares (ENEXShr) and ENEX by income decile, age of household head, tenure, household composition, and UK nation.
- We define ENEXShr as the proportion of equivalised after-housing-costs expenditure devoted to energy used in the home.

KEY FINDINGS

- In the context of a 30-year time period, the most striking feature is the low average ENEXShr and correspondingly relatively easy energy affordability of the early 2000s.
- The recent political pressures around the energy market likely result from the doubling of ENEX in nominal terms (i.e. before controlling for inflation) between 2003-04 and 2014, while at the same time the average quantity of energy consumed by households fell by 25%.
- ENEXShr increase considerably as household income declines: the ENEXShr of the lowest income decile is more than twice that of the top income decile.
- In 2014, the share of expenditure which low income households devoted to energy was considerably above that for water, telecoms and transport.
- The ENEXShr of younger pensioners, i.e. those aged 65-70, are similar to households in the middle of the income distribution.

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- High ENEXShr generally appear to be driven by low total expenditure (income) rather than high ENEX.
- Key energy affordability policies were introduced, or had their generosity increased, at a time when ENEXShr were falling towards long-term low levels and energy was approaching its most affordable.

POLICY ISSUES

- The salience of energy and energy price increases is likely to be significantly higher for low income households compared to those near the top of the income distribution.
- Distributional concerns and equity issues are likely to be particularly prominent in the energy market, compared to other utilities, because of the size and pattern of ENEX.
- The Winter Fuel Payment represented a significant increase in energy affordability support and a shift in the balance of this support from low income households to older households.
- The unexceptional ENEXShr of households headed by someone aged 65-70 raises questions about the justification for the receipt of the Winter Fuel Payment by this group.
- Political expediency and ideology seem to be likely factors driving the introduction of the Winter Fuel Payment and the Fuel Poverty Strategy.
- The ambition of the Fuel Poverty Strategy regarding eradication of fuel poverty was reduced as energy affordability pressures rose.

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