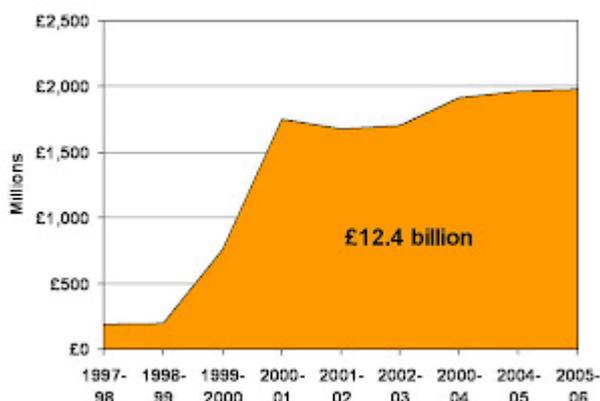


# It could be worse - winter fuel payments

Winter Fuel Payments - Britain



In my [last post](#) I asked for nominations for a worse policy than the proposed 'Health in Pregnancy Grant'. An anonymous contributor proposes the [Winter Fuel Payment](#), which is designed to help pensioners fight off the cold over winter. I think 'anonymous' may be on to something...

As the chart shows, this unconditional payment has now reached about £2 billion per year, and over £12 billion has been spent on this since 1997 [data from [PQ, 27 Jan 2007](#)]. Payments of £200 are made to over-60s and £300 to over-80s [[guide](#)] ostensibly to see older people through higher winter fuel bills. So this shares with the pregnancy grant two characteristics: very poor targeting of the needy group and very poor link to the stated objective. But it is much larger, and therefore is a bad policy on a larger scale. Could this be done better? It could hardly be done worse...

## Bad targeting wasting money

Even fuel poverty campaigners don't think much of it - see [NEA views](#). It would have been so much better to target this to work as an investment in the energy efficiency of homes - it would equate to about £500 for each of the [24.7m](#) homes in the UK since 1997. Otherwise, it could have been done as a boost to the pension for the festive season - with the aim of getting poor pensioners through a difficult time of year. It could have been targeted at investment in homes of the 'fuel poor', which include younger people (2 million households - see [BERR data](#)), or it could have been targeted at poor pensioners as a Christmas uplift for them (about 2 million with incomes below 60% of median - about 22% of pensioners - see [IFS report](#)). In either case, the target group would be much smaller than the general pensioner population.

## **Good targeting doing something useful**

The government's [Warm Front programme](#) is small by comparison - only around £300m/year for England - but gives grants of up to £4,000 to elderly and benefits claimants to overhaul the energy efficiency of their home. If the winter fuel payment actually did what it says on the tin, it would be funding wasteful repeat purchases of Russian gas and sponsoring an especially inefficient use of electricity. Luckily these indiscriminate grants are probably spent on more general consumption. In contrast, Warm Front payments are an *investment*, and they come with a payback. They fund investment in more efficient energy using capital in the home (better boilers, insulation etc), and create a stream of energy savings. This saves the householder money, increasing their spending power by more than the grant over five years, and reduces dependency on Russian gas and impacts on the climate. The [2006-7 Annual Report for Warm Front](#) says:

- *On average in 2006/7, each household receiving Warm Front assistance has the potential to save £193.78 in energy running costs every year. This broadly equates to a 7 year payback on the 2006/7 average grant investment of £1,436.*
- *A reduction in CO2 emissions in the average household from 6.97 tonnes per year to 6.16 tonnes per year, equalling total annual savings of 0.81 tonnes of CO2 per year for those homes improved, each and every year for the next 20 years.*

## **Any arguments for it?**

The argument for the Winter Fuel Payment and the Health in Pregnancy grant is that they are really just extensions to more unconditional benefits (pension credit and child benefit respectively) dressed up to give them an apparent sense of purpose, and in the case of the latter even some mild conditionality. There are probably three arguments against targeting:

1. some in the target group may be ashamed or otherwise reluctant to be defined as deprived and will not take up the benefit;
2. targeting can reduce the incentive to save and be self-reliant. This is the argument used persuasively against pension credit... (which tops up whatever income and savings you have to give a standard income per week - but in doing so effectively devalues your income and savings);
3. administrative costs administrative costs, complexity and potential for fraud may be higher.

I don't buy these for the Winter Fuel Payment because this is not sufficient to justify not saving for retirement, the opportunities for targeting are so good and the outcomes that can be attained by investment rather than consumption are so much better and longer-lasting.

A final thought: maybe [pension credit](#) and [child benefit](#) deserve a crack at the title of worst policy?