

National Energy Action (NEA) response to the Department for Business, Energy & Industrial Strategy (BEIS)'s consultation on Warm Home Discount (2018 – 2019)



Action for Warm Homes

About NEA

NEA¹ work across England, Wales and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives. Our subsidy Warm Zones is a not-for-profit Community Interest Company that also aims to work in partnership in various locations across the country to deliver integrated packages of energy efficiency measures, benefits and energy advice³. Both NEA and WZs deliver some of this assistance via the Warm Home Discount (WHD) policy. NEA also provide the secretariat for the All-Party Parliamentary Fuel Poverty & Energy Efficiency Group to raise awareness of the problem of fuel poverty and the policies needed to eradicate it⁴.

Summary of this response

The levy funded WHD provides crucial energy bill discounts to low income and vulnerable households. Via industry initiatives the policy also provides vital support to reduce fuel debt, funds energy & debt advice, income maximisation services and other forms of valuable support. In addition, the WHD is currently used as a proxy for the Safeguard Tariff. This ensures low income and vulnerable people often benefit from even lower bills and are free from the anxiety caused by sudden price increases. NEA therefore welcomes the opportunity to contribute to the development of the WHD policy.

Within the consultation, the UK Government rightly note the effect of rising energy prices are felt most by those with the lowest disposable incomes⁵. NEA also welcomes the UK Government stating the central importance of domestic energy efficiency remaining the most enduring solution to achieve collective goals; ending fuel poverty, a successful industrial strategy⁶, supporting small business growth in every region, helping to achieve carbon emissions reductions⁷, improving local air quality⁸, reducing health & social care costs⁹ whilst providing real benefits to households who are struggling financially. Within this response, NEA welcomes the intention to increase the Industry Initiatives spending by £10m. Combined with the small reduction in the ability of suppliers to directly write off their customer's debt, this can increase spending on vital support such energy & debt advice, income maximisation services and other more innovative forms of valuable support. NEA also welcome many of the stated reforms the UK Government intends to bring forward to enhance the Warm Home Discount (WHD) scheme from 2019/20.

Despite welcoming these steps, NEA does highlight a frustration with the slow pace by which the wider reforms trailed within the consultation will take place. The opportunities to data-match the Broader Group (and therefore ensure eligible households are automatically assisted and don't have to apply) has now been the subject of two consultations. In addition, the same households who may be eligible for the Broader Group but end up not receiving any support now also fail to be protected by the Safeguard Tariff and are needlessly exposed to the anxiety caused by sudden price increases. We estimate that well over half a million GB households are missing out on potential energy bill savings of £260 this year because, whilst eligible, they will not receive a Warm Home Discount (WHD) rebate or be safeguarded under Ofgem's Safeguard Tariff¹⁰. These households are mostly working-age, fall into the lowest income deciles and are already facing thousand pound gaps between their incomes and the essential cost of living¹¹. Protecting these households is a key priority and we therefore urge the Government, alongside these reforms to WHD, to also issue its response to the consultation on extending data sharing as soon as possible alongside the Statutory Instrument¹².

Response to the consultation questions

Industry Initiatives

1. Do you agree that the cap on Industry Initiatives spending should increase from £30 million to £40 million in 2018/19?

Yes. NEA supports this proposal and in our previous responses to the WHD we highlighted the value that energy or debt advice can provide to low income and vulnerable customers. We also highlighted how WHD Industry Initiatives represents value for money and should be a key feature of the programme until 2021. Due to the constrained consultation period it has not been possible to update this work, in light of our recent work on this key area. However, once complete, NEA would welcome sharing a summary of NEA's work with energy suppliers on industry initiatives, some notable outcomes and case studies etc. Given the underspend on this element of the scheme to date, NEA also aims to use this information to highlight to obligated parties, the benefits this support can provide over and above the value of a direct rebate.

2. Do you agree that a Local Authority declaration under ECO Flexible eligibility should count as evidence that a household is "wholly or mainly" in fuel poverty and therefore would be eligible for support under Industry Initiatives?

Yes. NEA fully supports the eligibility flexibility proposal within ECO and believes it can help open access to the scheme for fuel poor households that are not on means-tested benefits and encourage greater involvement of local actors, especially where vulnerability is a concern. This is true of ECO and WHD. NEA also believes the higher end proportion of 25% of the ECO obligation should be met through this route. NEA also continues to highlight one of the main reasons LAs may not be prioritising this mechanism is the significant risks that whilst low income and vulnerable households can be referred to support, they will not receive any assistance. Again, this is a risk under ECO and will need to also be mitigated under WHD. However, in agreeing to this proposal NEA also notes the need for BEIS and Ofgem to challenge LAs to ensure more declarations identify fuel poor households not in receipt of eligible benefits or low income households that are vulnerable to the effects of living in a cold home. This assistance should also not be made assessable where LAs themselves don't use these powers and appoint another body with 'delegated responsibility' to refer households to an obligated supplier on their behalf. Without heading this approach, NEA is concerned that opening Industry Initiatives to LAs (or those acting on their behalf) could lose the additionally which current Industry Initiatives provide and further dilute the need for better targeting of the WHD and ECO policies.

Debt assistance

3. Do you agree that the cap on debt write-off should reduce from £12 million to £10 million in 2018/19?

No, whilst NEA welcome the fact Industry Initiatives are increasing by £12m overall, NEA highlights that the reduction to fuel debt write off is less than envisaged in Government's previous response the consultation last year.

4. Do you agree that the cap on debt write-off should continue to reduce by 5% in each subsequent scheme year?

No. As noted above, the Government previously stated they anticipated the cap would decrease by 10% per scheme year.

Additional activities

5. Do you agree that Government should expand the list of activities allowed under Industry Initiatives to include the provision of financial assistance with energy bills, including rebates, to households that are particularly at risk of fuel poverty?

No. Whilst we would welcome this assistance helping to reduce the risk of self-disconnections etc, NEA notes the risks that this proposal will only seek to encourage further rebates albeit with greater flexibility than is currently provided given the standardised eligibility within the Broader Group.

NEA also notes that households are often put on a Fuel Direct repayment plan when they have been forced to have a Pre-Payment Meter installed. This therefore means that this proposal could simply end up subsidising debt write off but via a different route. NEA also highlights the need to often ensure debt advice or debt advice referrals are offered when customers are put onto a Fuel Direct repayment plan¹³.

6. Do you agree that spending on the provision of financial assistance with energy bills should be capped at £5m, or 12.5%, of industry initiatives spending? If you think an alternative cap should be set, please provide your reasons.

As noted above, NEA does not support this proposal if it simply encourages further rebates to be delivered outside the standardised eligibility within the Broader Group and fails to benefit those in or at most risk of fuel poverty. Given the wider risks highlighted above, the proposed cap would also act to simply subsidise debt write off but via a different route. NEA also seeks clarification from BEIS on whether the household's assisted under this mechanism would also be eligible for the Safeguard Tariff. NEA would potentially be keener to support this proposal if there was clarity on this issue. However, it is also unclear whether this would be on an enduring basis or only for the one scheme year. NEA would welcome the Government providing this clarity within its response to this consultation.

7. Do you agree that financial assistance with energy bills per household should be equivalent to the amount of the WHD rebate (£140)?

In the event that the Government proceed with this proposal despite the issues raised above, NEA would highlight the need for the value of the assistance to be lower and a new mechanism introduced to ensure that the assistance with energy bills does not end up paying back Fuel Direct repayments but is spend accessing units of energy. This should not be addressed by simply banning assistance with energy bills for those with Fuel Direct repayment plans when they have been forced to have a Pre-Payment Meter installed. This would clearly be perverse as these households are still likely to need support and are at high risk of self-disconnection. As a result, NEA proposes that any assistance provided via this route would also have integrated alongside wider industry initiatives and not delivered in isolation. This would help ensure energy advice is also provided for these customers to encourage them to not only directly benefit from the units of energy being provided but could also take up wider energy supplier services which are often poorly promoted; how households can register for priority services, get the best energy tariff, make a meter reading, benefit from a smart meter, how to maximise their income, contact their supplier to discuss energy debt, benefit from a carbon Monoxide alarm or free gas safety check.

Multi-year regulations

8. Do you agree that Government should issue Regulations covering the scheme until 2020/2021 with the proposed review clauses?

Yes, NEA sees the value in this proposal as our own delivery via Industry Initiatives is often back loaded due to the late passage of the Regulations. However, in agreeing to this proposal, the Government must also honour their commitment to ensure eligibility for the scheme could be set outside of Regulations as well as other key aspects of the policy including; scheme funding, value of the rebate, participation thresholds for energy suppliers and non-core obligation rules. NEA also notes that the consultation notes that these could all be reformed following a review and public consultation, but we stress the immediate need for both the thresholds to be adjusted to include smaller suppliers and for the envelope to be expanded to ensure data matched delivery of the broader group does not lead to a loss of support current core group recipients.

The Core Group

9. Do you agree that the Core Group eligibility criteria should be retained in 2018/19 for those people in receipt of Pension Credit Guarantee Credit?

Yes. NEA also believes the envelope for the WHD should be expanded to ensure data matched delivery of the broader group does not lead to a loss of support current core group recipients.

10. Should the Government consider further reform to the Core Group eligibility in future?

Yes. As noted above NEA has consistently advocated the need to extend the Core Group eligibility criteria to all Cold Weather Payment (CWP) recipients (albeit, the CWP cohort would now need updating in line with recent benefits changes and the adoption of new criteria for the standardised Broader Group). This can ensure many more low income households benefit from the scheme automatically. Extending the scope of the Core Group is particularly important considering Government has itself pointed out that under the definition of fuel poverty in England (low income high costs) fuel poverty is not just a problem found in older households, as is often suggested. Households [in England] with members over 60 do represent a quarter of the fuel poor population but families with children and other working age households make up over 70% of those in fuel poverty. NEA does however not make this point to argue funding for vulnerable older energy consumers should be cut. As noted in the consultation, any resulting increases in bills would be negligible. If smaller suppliers were also obligated as NEA also recommends, the impact would be even less.

11. Do you agree that we should amend the Broader Group standard criteria to include UC recipients in work or self-employed with monthly net earnings not exceeding £1,349, and maintain the other qualifying criteria (i.e. in receipt of a limited capability for work element, or a disabled child element, or parental responsibility for a child under the age of 5)?

Yes. NEA supports this proposal.

12. Do you agree that we should amend the Broader Group standard criteria for 2018/19 to include ESA recipients who are in a Work-Related Activity Group, and UC recipients in the Limited Capability for Work (LCW) group?

No. Given existing claimants pre-April 2017 will continue to receive the work-related activity component or the LCW element and therefore would continue to be eligible for the Warm Home Discount Scheme, we feel it is unfair for them to essentially 'compete for a place' alongside these newly eligible households. This issue should however be fully resolved if the scheme envelope was increased and the Government committed asap to data matching the extended Broader Group.

13. Do you agree that the standard criteria for the Broader Group cover the right benefits and take the right approach across the benefits covered, but with the potential for reform from 2019/20?

Yes, as noted above, NEA believes the main issue to address is the size of the scheme envelope and for the Government to commit asap to data matching the extended Broader Group.

14. Do you agree that the value of the rebate should be £140 in 2018/19?

Yes, NEA agrees with the proposal to keep the value of the rebate at £140 for this scheme year.

Participation threshold and dealing with suppliers no longer participating

15. Do you agree with the current supplier obligation threshold?

No. As noted above, NEA has consistently called for the current supplier obligation threshold to be reduced to obligate all suppliers over 50,000 customers to deliver the Warm Home Discount Core Group rebate. This intervention is even more warranted now given the extent of new entrants and data-sharing powers under the Digital Economy Act will shortly be amended so that households eligible for the Warm Home Discount, even those with smaller suppliers, receive protection from the safeguard tariff.

16. How do you think we should deal with the circumstances described above in order to provide a quality, fair service to households?

NEA notes that reducing the supplier obligation threshold might mean this issue becomes more common place. Addressing the description of the issues laid out in the consultation would appear logical; amend the current regulations to allow for Government to notify obligated suppliers before the obligation period closes to enable to suppliers to provide the rebates in the current scheme year.

17. Do you agree that the 2018/19 scheme year should end in March 2019?

Within the Broader Group, NEA agrees the deadline for unmatched customers to claim their rebate should be the end of January 2019. This option would be preferable from the customers' perspective and from an administrative perspective and most suppliers will close their Broader Group before this point.

18. Do you agree that if suppliers spent up to 5% more than their non-core obligation in Scheme year 7 of the scheme, then their non-core obligation should be reduced by a corresponding amount in 2018/19?

Yes, as far as NEA is aware this has not materially impact scheme delivery or the households the obligation is there to support.

19. Do you foresee any issues or risks associated with allowing suppliers to start Industry Initiative activities before the regulations are in place?

No. Due to the delays getting the Regulations agreed in Parliament, this could have back loaded the delivery of industry initiatives projects. NEA is however grateful that the Government therefore proposes that in scheme year 2018/19, Industry Initiatives from the 1st April 2018 will count towards obligations where initiatives have been approved in previous years, have been delivered well and have not changed. NEA is hopeful that obligated suppliers will respond to this reassurance but it is likely they will still require certainty the passage of the final Regulations provides. Despite this likely reality, NEA is also committed to trying to ensure that this does not impact on delivery or the clients the programme is there to support. In addition, as noted in response to question 8, this should be the final year where this form of hiatus is required.

Timings for transfer of non-core obligation into Industry Initiatives

20. Do you agree that the deadline for suppliers to submit a request to Ofgem to transfer some of their non-core obligation to Industry Initiatives is set to three and a half months before the end of the scheme?

Yes. This should allow companies to work with delivery partners to identify suitable initiatives and Ofgem to process project proposals.

21. Do you agree that any undelivered rebates in scheme year 7 should be added to a supplier's non-core obligation in 2018/19?

Yes. These resources could be especially valuable within industry initiatives. In addition, attempts should be made to address the cause of the undelivered rebates. This particularly true for PPM customers who may not be redeeming their vouchers. This could be due to mobility or other vulnerabilities and as such this should be addressed by the supplier as part of their compliance of their obligations to their vulnerable customers.

22. Do you agree the timeframe for Ofgem to respond to notifications should be amended from 28 calendar days to 20 working days?

Yes.

23. Do you have any other comments you would like to make?

Yes. As noted above, NEA highlights it is imperative the necessary secondary legislation to allow the data matching for the Safeguard Tariff takes place asap. As well as waiting for BEIS to respond to the consultation to amend Section 36(3) of the Digital Economy Act the detailed response to Ofgem's consultation on extending the Safeguard Tariff is also outstanding. Within the response to both consultations we expect the Government and Ofgem to clearly state when this targeted approach will come into force. NEA also strongly disagrees with Ofgem's current proposal to limit data matching for the Safeguard Tariff to the larger suppliers only. Data matching is one of the most cost-efficient as well as effective methods to identify vulnerability. If excluded from data matching, Ofgem risks reinforcing the two-tier market where some vulnerable customers are protected whilst others are not. This will undermine efforts to increase consumer engagement and switching amongst traditionally disengaged groups and risks sending a message that supporting low income and vulnerable customers is the remit of the large supply companies only.

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

³ For more information visit: <http://warmzones.co.uk/>.

⁴ For more information visit: www.nea.org.uk/fpeeg/about-fpeeg/

⁵ BEIS consultation IA page 8. NEA notes that Net disposal income after housing costs of a low income household is £248 per week (£12,933 per year), equating to 60% of the UK median of £413 per week. The income after housing costs of a fuel poor household is even lower: £10,118 per year, equating to a net disposal weekly income of £194. Investigating income deciles shows the poorest 10% of UK society have a gross average weekly household income of £130 (£6,760 per year). Fuel poor households overwhelmingly comprise the poorest fifth of society: 85% of households in fuel poverty in England are in the first and second income deciles and 78% of English households in those two deciles are fuel poor.

⁶ Draft National Infrastructure Assessment, National Infrastructure Commission, October 2017.

⁷ Committee on Climate Change, Next steps for UK heat policy, October 2016.

⁸ The Fuel Poverty Action Plan, Greater London Authority (GLA), June 2017.

⁹ Age UK. 2012. The cost of cold: Why we need to protect the health of older people in winter.

¹⁰ NEA notes that in WHD Scheme Year 5 – the baseline Ofgem has used to identify safeguard tariff customers – 836,201 rebates were provided to low income and vulnerable energy consumers through the Broader Group (BG). As Ofgem is aware however, not all energy consumers eligible for WHD through the BG receive a rebate. This is because the number of BG rebates is capped, only larger suppliers are obligated to offer rebates, customers must apply for a BG rebate and applications are considered on a first come first served basis. The former Department of Energy and Climate Change (DECC) has previously estimated that the BG comprises two million households. Deducting households in receipt of a BG rebate in Scheme Year 5, NEA therefore estimates that approximately 1.2 million eligible households will miss out on both a £140 WHD BG rebate and protection under the safeguard tariff. Of those 1.2 million households, NEA assumes 35% are PPM customers and therefore already protected under the PPM safeguard tariff. This assumption is in accordance with findings from the CMA investigation into the energy market and the methodology used in Ofgem's own calculations. Of the remaining 756,469 households, NEA makes two assumptions. 1) 75% are on standard variable tariffs (SVTs), as per the CMA's findings on the proportion of SVT usage among WHD households. 2) 93% of these households are with a WHD obligated supplier, as per Ofgem's calculations.

¹¹ Ibid, Bridging the Gap report.

¹² Read NEA's response the data-sharing consultation here: <http://www.nea.org.uk/wp-content/uploads/2018/03/NEA-RESPONSE-TO-CONSULTATION-ON-DATA-SHARING-REGULATIONS-FOR-A-SAFEGUARD-ENERGY-TARIFF.pdf>

¹³ NEA notes in this context, Ofgem and BEIS should also be encouraging efforts by smaller non obligated parties to ensure coverage of wider protections in this area. NEA specifically refers to the "Energy UK Safety Net" initiative. Currently some of Energy UK members have pledged to never knowingly disconnect a vulnerable customer at any time of year, where for reasons of age, health, disability or severe financial insecurity, that customer is unable to safeguard their personal welfare or the personal welfare of other members of the household. In addition, the Safety Net provides enhanced measures that are supposed to be integrated into all suppliers' debt management processes, an agreed universal definition of a potentially vulnerable customer, improved communication with support agencies, a range of debt management and repayment options and follow-up procedures to support vulnerable customers. Whilst this good practice is welcome, the value of this model is increasing being challenged by several new entrants who may not be aware of the initiative or do not feel it is relevant for their customers. This is resulting in an unacceptably large variance in the different services being delivered across different energy suppliers depending on their size and capacity.