



FAIR BY DESIGN

Ending the extra costs of being poor



Action for Warm Homes

KEEPING BRITAIN WARM AND WELL

How to help millions of people
pay a fair price for their energy

ABOUT US

About National Energy Action (NEA)

NEA works across England, Wales and Northern Ireland to ensure that everyone in the UK can afford to live in a warm, healthy home. NEA also provides the secretariat for the All-Party Parliamentary Fuel Poverty & Energy Efficiency Group (FPEEG) to raise awareness of fuel poverty and stimulate cross-party debate about the need to make energy costs more affordable.

Fair By Design

Fair By Design (FBD) is a movement dedicated to reshaping essential services, like energy, credit and insurance, so they don't cost more if you're poor. Our Venture Fund provides capital to help grow new and scalable ventures to innovate the market. The Fair By Design Campaign launched in September 2018. We were established by Barrow Cadbury Trust, Big Society Capital, Comic Relief, Joseph Rowntree Foundation, the National Lottery Communities Fund, Social Tech Trust, and the Tudor Trust. The FBD Campaign is managed by Barrow Cadbury Trust on their behalf.

SUMMARY

The Warm Home Discount (WHD) scheme currently provides a payment of £140 (inclusive of VAT) towards energy bills, and also contains provisions to carry out projects to help low-income and vulnerable households to better afford their energy bill. The scheme was introduced by the Government in April 2011 and is an obligation on energy suppliers funded through bills.

But the continuation of the scheme is in doubt.

Formally, the Warm Home Discount (WHD) scheme will end after March 2021. We are calling for an extension and expansion of the scheme after that date to ensure all eligible low income working age households receive the rebate automatically without needing to apply each year to their supplier.

Every year many poorer customers miss out on the Warm Home Discount scheme because:

- Not all suppliers have to offer it
- It is poorly advertised which means many are unaware of its existence
- The UK Government has not yet made the most of data-sharing powers which would help low income working households benefit from the scheme without needing to apply to their supplier each year
- Their applications could be unsuccessful because there is only a finite amount of money available for the limited annual budget.

We are calling specifically for the following:

- The UK Government to extend and expand the Warm Home Discount (WHD) scheme for at least three years
- The UK Government to ensure current low income pensioners continue to receive WHD rebates and ensure the extended and expanded scheme uses data matching powers to guarantee all eligible low income working age households receive the rebate automatically
- The UK Government to ensure smaller suppliers are also required to provide all elements of the WHD
- Ofgem to ensure the WHD is better designed i.e. ensure that more customers know about it and there are more channels to apply for it via Industry Initiatives
- For all energy suppliers to implement the new WHD policy before the start of the new phase of the scheme in April 2021, and regularly liaise with customers to see whether the WHD is meeting their needs
- For those suppliers to continue making sure consumers have access to hardship grants, and energy/fuel debt advice.

A PREVENTABLE COLD HOME CRISIS

Each winter at least **11,400 people in the UK die due to a cold home**¹. During the “Beast from the East” in winter 2017/18, this figure exceeded 17,000 who died because they were unable to keep warm². These needless deaths are sadly just the ‘tip of the iceberg’ and many more people are suffering with poor physical and mental health due to inadequately heated homes.

The resulting impact on health services is acute; **costing the NHS between £1.4bn and £2bn every year**, in England alone³.

In too many homes people have to choose to eat or heat. People across the UK are adopting desperate coping tactics simply to keep warm.

TEN COMMON COPING STRATEGIES BY THOSE AFFECTED BY FUEL POVERTY



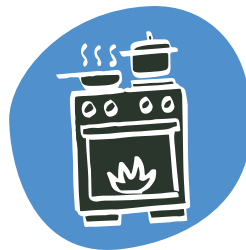
Going to bed early to stay warm



Spending the day in heated spaces such as a library, cafe or even A&E



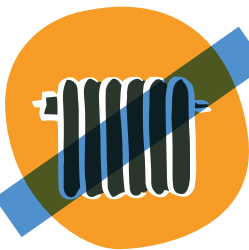
Not inviting friends or family to the home



Using unsafe, unserviced heating appliances or inappropriate devices like ovens to stay warm



Cutting back on buying essential personal items, food, eating only cold meals or reliance on food banks



Only heating one room or avoiding using central heating at all



Cooking using alternative sources such as a barbeque or portable stove



Cutting back on electricity and using candles instead of lights



Leaving curtains closed all day or putting newspaper over windows



Formal or informal borrowing from friends and family

THE POOR ACTUALLY PAY MORE

The irony is that people on the lowest incomes pay more for their energy⁴. This is called the poverty premium. Whilst the causes vary, people on low incomes often pay more because they:

- have a pre-payment meter;
- are in accommodation where they are unaware of their rights to change supplier;
- pay standing charges for months when not using any energy;
- are more likely to lack access to the internet so can't access the best deals; or
- simply struggle to find a cheaper tariff.⁵

In England, more than 10% of households live below the poverty line⁶ but have higher than average energy costs and on average are spending an additional £320 per year on keeping warm (compared to those not living in fuel poverty⁷). For those who live in the least efficient homes, the impact is even greater with some households spending £2000-£2800 keeping warm and well⁸.

People we spoke to described the impossible choices some families face:

"In the winter when I need to put more [heating] on then I do find it difficult to keep up with the other bills, if I want to, you know, eat and keep warm"

"I'm having to put a duvet over just to keep warm every week so I can pay the bills that need paying first."

"I'm always struggling. I have done for the last 10 years. I'm always struggling with my bills."

"That's an on-going thing, we're always struggling to pay the bills, you know. But I do pay them."

"Basically, I didn't really buy any clothing for myself, I was having to make do and mend with a lot of my clothing. It was cutting back on stuff as well for the girls and, again, they had to wear things right to the very bone, and it was just basically trying to live, not within my means, but well below my means, just to ensure that I'd got enough money so that I could top-up the meter".

We believe everybody should pay a fair price for their energy and should be able to keep warm and well in their homes.

HOW CAN WE HELP PEOPLE BECOME WARM AND WELL IN THEIR HOMES?

There are three main ways to help address this preventable crisis:

1. reduce energy prices
2. maximise people's incomes; and
3. improve the efficiency of homes

Whilst they are all important, this briefing focuses on the first solution. In particular, we are calling for the extension and expansion of the Warm Home Discount (WHD): a policy which already entitles the poorest pensioners to an **automatic reduction of £140 from their energy bills** each winter.

That scheme is **due to end after 2021**, despite providing a lifeline for millions.

We are also calling for suppliers to make information on the WHD much more accessible. Ofgem should develop guidance for how firms can do this. We suggest using an 'inclusive design' approach⁹; the principle of designing products, services, and support schemes around a broad range of consumer needs, including those with additional needs or at risk of experiencing vulnerable circumstances.

Industry Initiatives: Energy suppliers that offer the WHD scheme deliver support to people living in fuel poverty or a fuel poverty risk group. Those suppliers can choose to deliver some of this support through Industry Initiatives, which is usually in partnership with other third party organisations (such as charities). The support offered can include help assist customers with their energy bills or energy usage.

WHAT IS THE WHD AND WHAT SUPPORT DOES IT CURRENTLY PROVIDE?

The Warm Home Discount Scheme (WHDS) provides a payment of £140 (inclusive of VAT) towards energy bills. The scheme was introduced by the Government in April 2011 and is managed by energy suppliers.

There are two ways to qualify for the Warm Home Discount Scheme: **low income pensioners who receive the Guaranteed Credit element of Pension Credit receive the payment automatically** and don't need to apply to their supplier. This is done using data-matching between energy suppliers and central government. This group is known as the 'core group'.

Other low income working age households can also access the scheme but they are required to meet their energy supplier's criteria, based on means-tested benefits. The application process also differs depending on the supplier. This group of recipients is known as the 'broader group'.

Finally, another element of the scheme allows **suppliers to help fuel-poor customers through third parties**: this is known as the 'Industry Initiatives'. This support depends on the supplier's terms and conditions, and choice of third party provider. That provider might also offer advice on energy saving, and help with reducing energy debts.

The UK government co-ordinates the Core Group, the energy regulator, Ofgem, administers the Broader Group and Industry Initiatives.

Whilst the WHD provides vital support, there are problems with the current scheme:

- Despite legislative powers which allow the Government and suppliers to provide this support automatically, and despite being eligible for support and paying for the cost of the policy through their energy bills, 'broader group' customers have to apply to their supplier for assistance. This means **as many as two million customers can miss out on this support each year** either because they are unaware of this programme or because their applications are unsuccessful as there is only a finite amount of money available for the limited annual budget¹⁰.
- Some smaller suppliers are not required to provide the WHD, and these suppliers are not required to specify in their own publicity or on price comparison websites that they do not provide it. This means that **if customers, particularly those in the 'core group', switch suppliers to benefit from a cheaper deal, they may lose their entitlement to the £140 rebate.** This can result in these customers being worse off.
- The support provided by the Industry Initiatives element of the scheme is limited due to the small size and scale of the programme and the number of initiatives it funds.

The WHD as it currently operates remains arbitrarily inaccessible to many low income customers who face a shortfall between their incomes and the essential cost of living¹¹. They miss out on support despite contributing to the cost of the policy through their energy bills.

Our proposals would ensure that these issues are addressed, and that the scheme can play an even more vital role supporting those that most need this support.

HOW TO EXTEND AND EXPAND THE WARM HOME DISCOUNT

The UK Government, Ofgem, parliamentarians and energy companies must work together in 2020 to ensure that the scheme continues and expands after April 2021 to become more fair. Through legislation, consultation, or business guidance we call for:

UK Government:

- to ensure current low income pensioners continue to receive critical support and do not see a reduction in the value of their rebates.
- to ensure an extended and expanded scheme makes the most of current data matching powers so that all eligible low income working age households receive the rebate automatically and do not have to apply to their supplier each year.
- increase funding and support for the Industry Initiatives component of the scheme to provide further assistance across Great Britain for hardship grants, energy and fuel debt advice, and wider vital services.
- to ensure all licenced suppliers (not just those with more than 250,000 customers) are required to provide all elements of the WHD obligation so they can offer this support.
- to ensure that the scheme administrator gives greater clarity on which activities can be funded by the Industry Initiatives portion of the scheme.
- to ensure that as well as the WHD, the current statutory energy efficiency commitments¹² contained within the 'Fuel Poverty Strategy for England' are met¹³.

Ofgem:

- alongside existing price protections¹⁴, to enforce the above changes to the WHD scheme.
- to ensure the WHD is better designed i.e. ensure that more customers know about it and there are more channels to apply for it next winter via Industry Initiatives before data matching can start in 2021/22.
- to evaluate the benefits of the WHD, in particular the value of Industry Initiatives such as the number of beneficiaries, the cumulative impact of support provided and whether the services provided are giving value for money compared to switching supplier or direct yearly WHD rebates.
- to ensure all licenced suppliers deliver all elements of their WHD obligation.

Parliament

- to get a commitment from the UK Government that the WHD will be extended and expanded.
- to ensure there is sufficient Parliamentary time for the secondary legislation required to be introduced and carried through.
- to scrutinise the legislative proposals and ensure the suggestions put forward by this paper are implemented.
- to ensure the regulations are approved in both the Lords and the Commons without delay.

Businesses

- to implement the new WHD policy before the start of the new phase of the scheme in April 2021.
- to explain the support that is available via the WHD and other assistance such as the Energy Company Obligation and the Priority Services Register in a consistent and accessible manner.
- to ensure smaller suppliers, now obliged to offer the WHD, know how to deliver all elements of their new WHD obligations to their customers.
- to regularly consult with customers to see whether the WHD is meeting their needs.

WHAT SUCCESS WILL LOOK LIKE

- the WHD scheme is legislated for post-2021 for at least three years, giving assurance to low income pensioners and low income working age households that this vital support will be maintained and expanded.
- by using current powers within the Digital Economy Act ensure at least an extra 0.6 million, and possibly more than 1.5 million households, who are in full or part-time work but can't currently afford basic essentials, will be eligible to receive WHD. Households must not miss out on this support each year either because they are unaware of it or because they fail in their applications due to the limited annual WHD budget.
- current low income pensioner recipients continue to receive this critical support and do not see a reduction of the value in their rebates so they are at less risk of dying prematurely.
- UK organisations across the board continue to make sure consumers have access to hardship grants, and energy/fuel debt advice.

If implemented our proposals will mean millions more people across Great Britain pay a fairer price for their energy and are more able to keep warm and well in their home. As well as directly improving their lives, these actions will help reduce stress on and costs to the NHS, especially over winter, and deliver a fairer transition to a net zero carbon society¹⁵.

Further details, including costings and how our recommendations can be achieved, are found in an accompanying briefing document found here: <http://bit.ly/FBDWHD>

SOURCES

1. Over the last five years, there have been an average of 35,562 excess winter deaths each year. NEA estimates that approximately 30% of these are attributable to the impact cold homes have on those with respiratory and cardio-vascular diseases and the impact cold has on increasing trips and falls and in a small number of cases, direct hyperthermia. This is in line with estimates made by the World Health Organisation (WHO) - http://www.euro.who.int/__data/assets/pdf_file/0003/142077/e95004.pdf.
2. In 2017/18, excess winter deaths exceeded 50,000 across the UK, and NEA estimates that 17,000 people died because they were unable to keep warm enough at a reasonable cost.
3. In 2016 Building Research Establishment (BRE) released its revised Cost of Poor Housing (COPH) report, which estimated the cost of poor housing to the NHS based on Environment, Health and Safety (EHS) and NHS treatment costs from 2011 and includes treatment and care costs beyond the first year. It also includes additional societal costs including the impact on educational and employment attainment. Finally, it provides information in terms of QALYs (Quality adjusted life years) as well as cost benefits, and to compare with other health impacts. The report estimates that the overall cost of poor housing is £2bn, with up to 40% of the total cost to society of treating Housing, Health and Safety Rating System (HHSRS) Category 1 hazards falling on the NHS. Overall, the cost to the NHS from injuries and illness directly attributed to sub-standard homes was estimated at £1.4 billion, and the total costs to society as £18.6 billion. Research by the BRE in 2013 suggested that if all of the English housing stock with a Standard Assessment Procedure (SAP) below the historic average of 41 was to be brought up to at least the current average of 51 through heating and insulation improvements, the health cost-benefit to the NHS would be some £750 million per annum. Other estimates put the costs to the NHS of energy inefficient housing at £192 million (£35 million of which was in the Private Rented Sector). Use of the BRE category 1 calculator put the estimated Private Rented Sector costs to the NHS at between £37 and £674 million depending on SAP rating and occupancy level.
4. National Energy Action: Bridging the Gap: Addressing the cost of living facing UK households this winter (2017) <https://www.nea.org.uk/wp-content/uploads/2017/11/Bridging-the-Gap-NEA.pdf> "The poorest households face a fuel poverty premium relative to higher income earners to achieve the same outcome: a warm home. Low-income households spend six % more of their total household expenditure on energy, are more likely to be on poor value-for-money tariffs paying an excess of up to £300 per year and can be locked into higher fuel costs living in energy inefficient homes." (p.3)
5. Bristol University: Paying to be poor: Uncovering the scale and nature of the poverty premium. <http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf>
6. The net disposable 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 disposable 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 located in the first and second income deciles and 78% of English households in those two deciles are fuel poor.
7. Under the English definition of fuel poverty a household is fuel poor if: the amount they would need to spend to keep their home at "an adequate standard of warmth" is above the national median level and if they spent that amount, their leftover income would be below the official poverty line. In other words, under the English definition of fuel poverty, a household is fuel-poor if their income is below the poverty line (taking into account their energy costs); and their energy costs are higher than is typical for their household type. This reduced the amount of households in fuel poverty in England by over 1 million households and shifted the distribution of fuel poverty. Over 45% of all fuel poor households in England are in full or part-time work.
8. Annual Fuel Poverty Statistics Report, 2019 (2017 data), BEIS 2019, page 11.
9. <https://fairbydesign.com/news/inclusive-design-in-essential-services/>
10. Ofgem estimates that 2.2m customers are eligible for the warm home discount but do not receive it (https://www.ofgem.gov.uk/system/files/docs/2017/12/providing_financial_protection_to_more_vulnerable_consumers_0.pdf) This was verified by BEIS in their consultation on data matching (<https://www.gov.uk/government/consultations/data-sharing-regulations-for-a-safeguard-energy-tariff>)
11. The scale of this challenge is stark, 47% of all fuel poor households in England are in full or part-time work and to meet the essential cost of living, NEA estimates that some families in fuel poverty face an income shortfall of up to £9,331 per year (£778 per month) to cover basic essentials, including energy. See National Energy Action: Bridging the Gap: Addressing the cost of living facing UK households this winter (2017) <https://www.nea.org.uk/wp-content/uploads/2017/11/Bridging-the-Gap-NEA.pdf>
12. This requires all fuel poor homes to benefit from energy efficiency improvements by 2030 to reach the standard of a modern home built today, supported by interim milestones.
13. As well as WHD, the Department for Business, Energy and Industrial Strategy (BEIS) also urgently needs to follow through with key commitments surrounding domestic energy efficiency made in the Conservative Party manifesto to invest £2.5bn in a new Home Upgrade Grant Scheme (HUGs) in fuel poor homes and wider commitments made in the 2018 Clean Growth Strategy, including an extension of the Energy Company Obligation (ECO) until 2028 at the current level of ECO funding, developing a long term trajectory to improve the energy performance standards of privately rented homes, with the aim of upgrading as many as possible to EPC Band C by 2030 where practical, cost-effective and affordable, and how social housing can meet similar standards over this period.
14. The Pre-Payment Cap and the Default Tariff Cap also provides relief from unpredictable price increases, greater transparency in the pass through of energy related policy costs, and the prospect that bills could fall if input costs drop. For the majority of customers who don't (or can't) engage in the market, this continues to be a positive development, despite the recent rises that were announced on February 7, 2020 (<https://www.theguardian.com/business/2019/feb/07/energy-bills-to-rise-by-more-than-100-pounds-for-15m-households-as-price-cap-lifted>)
15. <https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law>

KEEPING BRITAIN WARM AND WELL: OPTIONS TO DELIVER AUTOMATIC WARM HOME DISCOUNT REBATES FOR WORKING FAMILIES

This analysis assesses the options for expanding the WHD, in particular the cost impact of extending the WHD rebate to all households eligible in the Broader Group and retaining Industry Initiatives.

Providing automatic rebates for low income working families and extending Industry Initiatives would require the current envelope of the programme to be expanded. Our analysis suggests these reforms could be achieved at no cost to the Treasury by leveraging the savings made by the Department for Business, Energy and Industrial Strategy's (BEIS) Smart Systems and Flexibility Plan¹ or in a cost-neutral way by reconfiguring how current Winter Fuel Payment² or Cold Weather Payments³ work.

Unless otherwise stated, the source for figures used in this analysis is BEIS's Impact Assessment for extending the WHD to 2018-19⁴. It should be noted that this cost analysis is indicative only⁵.

The Digital Economy Act⁶ enables suppliers to work with government to provide the Warm Home Discount (WHD) automatically to low income working households. We believe that it is critical the WHD is amended to enable these new powers to automatically provide support to eligible low income working households and that the programme is extended past its current end date of April 2021.

Using the existing powers within the Digital Economy Act would help at least an extra 0.6 million, and possibly more than 1.5 million more households who are in full or part-time work but can't currently afford basic essentials. Although eligible to receive WHD, they miss out on this support each year either because they are unaware of it or because they fail in their applications due to the limited annual budget.

The low income working households who currently miss out, face serious shortfalls between their incomes and the essential cost of living and miss out on support despite paying for the cost of the provision through their energy bills.

As well as expanding vital energy rebates, there is also an urgent need to provide certainty over the future of the 'Industry Initiatives' component of the scheme. Without it, a wide range of organisations will not be able to maintain grants, fuel debt advice, and other services.

Providing automatic rebates for low income working families and extending Industry Initiatives would require the current remit of the programme to be expanded to ensure current low income pensioner recipients do not see a reduction in the value of the rebate.

Further details are contained in this report alongside a summary of the likely effectiveness and value for money, revenue implications for the Exchequer, macroeconomic implications (for economic stability and growth), distributional impacts and administrative and compliance costs.

<p>Likely effectiveness and value for money</p>	<p>The WHD is an existing programme. The delivery of rebates to the 'core group' using data sharing powers has been considered a great success and key innovation within the UK Government. It removes the need for vulnerable households to be aware of the programme or come forward for support. Our proposals would build on this success. In addition, whilst Ofgem [via E-serve] has not fully evaluated the industry initiatives component of the scheme, NEA's own delivery of the scheme has found this part of the programme often provides better value for money than switching or even direct yearly rebates⁷.</p>
<p>Revenue implications for the Exchequer</p>	<p>Our proposed reforms include ways of delivering the WHD in a cost-neutral way to the Treasury.</p>
<p>Wider macroeconomic implications (for economic stability and growth)</p>	<p>Reducing energy costs for the poorest households helps reduce energy arrears and stimulates spending on other essential goods and services. It also has a positive impact on health and well-being, reducing the stress on current tax-funded services.</p>
<p>Sectorial and distributional impacts</p>	<p>The proposals would help the poorest working age households and the poorest fifth of society.</p>
<p>Administrative and compliance costs and issues</p>	<p>Whilst there would be a marginal increase in additional administration for DWP to undertake data-matching, this cost would be borne by suppliers and, given the reduction in compliance costs for obligated parties, there would be no overall additional costs.</p>
<p>Legislative and operational requirements</p>	<p>The primary powers within the Digital Economy Act and related regulatory schedules now enable automatic rebate to the 'Broader Group'. In order for the scheme to be extended and expanded, the current Warm Home Discount regulations would need to be amended and tabled next year in order for the new programme to start in April 2021.</p>

THE SPENDING IMPACT OF PROVIDING AN AUTOMATIC WHD REBATE TO ALL HOUSEHOLDS IN THE CORE AND BROADER GROUPS

One option that has previously been considered by the UK Government was to extend automatic rebate without increasing the scheme's spending envelope. If data-matching was extended to the Broader Group so all WHD eligible households (Core Group and compulsory Broader Group including low-income working families) received an automatic rebate this would equate to an estimated 2.8⁸ million rebates.

Within the current spending envelope (£320 million) this would mean the value of the rebate for all households would decrease by £26 from £140 to £114. This equates to a c.18% reduction in the value of the rebate.

If debt advice and income maximisation services under Industry Initiatives were retained (which we stress is crucial as it can provide better value for money than fuel debt write off or even direct yearly rebates), this would leave £280 million available for rebates to 2.8 million households.

Under this scenario the value of the rebate for all households would need to decrease by £40 from £140 to £100. This equates to a c.29% reduction in the value of the rebate. Given the number of frail and elderly people that die every winter, we do not believe the Government should reduce current support for low-income pensioners, nor should the UK-wide policy be targeted solely at fuel poor households under the Low Income High Cost (LIHC) definition.

In the following table we provide the options for the different costs associated with particular WHD scenarios. They are:

- the current scheme: an automatic rebate for Core Group only and 'first come first served' rebate for Broader Group
- an automatic rebate for Core and Broader Groups
- an automatic rebate for Core and Broader Groups and the retention of the current £40m Industry Initiatives budget.

Table 1: Value and number of WHD rebate(s) within the current spending envelope if rebate is paid to all households in the Core and Broader Groups within the current spending envelope

	Current WHD: Automatic rebate for Core Group only and 'first come first served' rebate for Broader Group	Future WHD option: Automatic rebate for Core and Broader Groups	Future WHD option: Automatic rebate for Core and Broader Groups and retain current £40m Industry Initiatives budget
Total number of WHD eligible households	2.8m	2.8m	2.8m
Spending envelope available for rebates	£280m	£320m	£280m
Spending envelope available for Industry Initiatives	£40m	None	£40m
Total spending envelope	£320m	£320m	£320m
Total number of rebates ⁹	2m (est.)	2.8m	2.8m
Number of eligible households who do not receive the WHD	0.6m	None	None
Value of rebate	£140	£114	£100
£ change from current rebate value	No change	-£26	-£40
% change from current rebate value	No change	-18%	-29%

THE SPENDING IMPACT OF PROVIDING AN AUTOMATIC WHD REBATE TO ALL HOUSEHOLDS IN THE CORE AND BROADER GROUPS AT THE CURRENT REBATE VALUE OF £140 AND RETAIN INDUSTRY INITIATIVES

If all 2.8 million eligible Core Group and Broader Group households within the standardised criteria received an automatic WHD rebate valued at the current amount of £140 this would increase the spending envelope by £112 million from £320 million to £432 million, if spending for Industry Initiatives is maintained (our preferred policy option).

Table 2: WHD spending envelope retaining current value of rebate and Industry Initiatives

	Future WHD option: Automatic rebate for Core and Broader Groups and retain £40m Industry Initiatives cap
Total number of WHD eligible households	2.8m
Total number of automatic rebates	2.8m
Total number of 'first come first served' rebates	None
Total number of rebates	2.8m
Value of rebate	£140
Spending envelope available for rebates	£392m
Spending envelope available for Industry Initiatives	£40m
Total spending envelope	£432m
£ change from current envelope	+£112m
% change from current envelope	+35%

THE IMPACT ON CUSTOMERS OF RESOURCING THE WHD

Assuming a unique Meter Point Administration Number (MPAN) equates to a single customer there are 28,100,000 domestic electricity customers in Great Britain and 23,200,000 domestic gas customers. This equates to 50,595,000 domestic energy meters in total.

In their supply market indicator methodology Ofgem explain how they calculate the WHD cost per customer: “[t]o calculate the cost of WHD as a proportion of the customer bill, we divide the total cost of the scheme by the number of gas and electricity customers of the large energy suppliers”¹⁰. Assuming a market share for larger suppliers of 97%¹¹ – then the **additional** cost of delivering an expanded WHD scheme to provide an automatic £140 rebate to all Core and Broader Group households whilst retaining Industry Initiatives would be approximately **£4.50 or a 0.4% increase** on an average dual fuel bill.

It should also be noted that this intervention would sit outside of the Levy Control Framework (LCF) but for illustrative purposes the total cost of the reformed WHDS would represent 4% of the total current LCF budget¹².

Table 3: Impact on bills of expanding WHD envelope

	WHD 2018/19: £320m spending envelope spread across larger suppliers only	Our preferred policy option
Total cost of WHD scheme	£320m	£432m
Total number of gas and electricity customers (GB)	50.6m (est.)	50.6m (est.)
Cost spread across customer base	Currently Obligated Suppliers (>150k accounts)	Currently Obligated Suppliers (>150k accounts)
Cost of delivering WHD per dual fuel customer¹³	£12.86	£17.36
% change on average dual fuel bill of £1178	No change	0.4%

Table 4: Summary of options for delivering reforms for the next stage of WHD

Option	Spending Envelope	Auto Rebates	Total Rebates	Rebate Per Customer	Marginal Cost to Customer
1. Do Nothing (i.e. Status Quo)	£320m	1.28m	2.2m	£140	£0
2. Broader Group Auto Rebate – Same Envelope	£320m	2.8m	2.8m	£114	£0
3. Broader Group Auto Rebate – Same payment	£432m	2.8m	2.8m	£140	+0.4% on an average dual fuel bill

The following table describes how to fund the scheme. It describes how it can be paid through bills, and then also from general taxation, as well as their relative pros and cons.

Table 5: Options for paying for additional WHD rebates

Policy option	How it would work	Financial Rationale	Pros	Cons
Levy	Levy costs would likely to be recoverable through bills as usual. Cost will be more than made up by the savings made in the Smart Systems & Flexibility plan	The smart systems and flexibility plan will deliver on average over £1bn a year up to 2050. Using a levy would essentially ensure that these savings are passed through in a more progressive way.	<ul style="list-style-type: none"> ■ Ensures support goes to the poorest. ■ Relatively admin light ■ No net cost to the taxpayer 	<p>Adds small cost onto bills</p> <p>Reduces payments to pensioners who may need it</p>
Tax – use Winter Fuel Payment money	Fund through a levy that is offset by a “Government Electricity Rebate” (GER) general taxation, but reduce or stop the winter fuel payment	The winter fuel payment costs the government £2bn a year. Reducing this by 17% would more than offset the added cost of extending WHD auto rebates	<ul style="list-style-type: none"> ■ Ensures support goes to the poorest in society 	Contradicts the Conservative manifesto pledge to keep the Winter Fuel Payment.
Additional tax funded support to offset impact on consumers via general taxation	Fund the expanded WHD through a levy on consumer bills that is offset by a “Government Electricity Rebate” (GER) paid for via additional general taxation	The additional taxation required to compensate households for a £112m increase in the size of WHD would be negligible.	<ul style="list-style-type: none"> ■ Negligible impact on tax payers ■ All other policies preserved 	Reintroduction of GER may add extra admin (compared to the levy)
Tax – use Cold Weather Payment money	Fund through a levy that is offset by a “Government Electricity Rebate” (GER) general taxation, but stop the Cold Weather Payment	In the last 8 years, Cold Weather Payments have costed on average £100m a year and up to £450m in a single year. Eliminating this would free up the budget required to cover the cost of extending WHD auto rebates.	<ul style="list-style-type: none"> ■ No net cost to the taxpayer ■ Support the same households as current policy but directly reduces bills as opposed to supplementing income (which CWP does) ■ WHD payment comes pre-winter as opposed to CWP, so WHD is more useful. ■ CWP seen as difficult to administer by DWP. BEIS could administer this proposal at little cost compared to the CWP 	<p>The CWP would need to be retained in Northern Ireland (as WHD is only a Great Britain-wide policy)</p> <p>In warm years, where the total spend of the Cold Weather Payment is low, the budget may not cover the amount needed for the expanded WHD.</p> <p>Reintroduction of GER may add extra admin (compared to the levy)</p>

SOURCES

1. <https://www.gov.uk/government/publications/upgrading-our-energy-system-smart-systems-and-flexibility-plan>
2. This is a payment from the UK Government which you can receive if you were born on or before 5 April 1954, it is not means tested and provides between £100 and £300 to help address the cost of heating bills.
3. This is a payment from the UK Government if the average temperature in an area is recorded as, or forecast to be, zero degrees celsius or below, over 7 consecutive days. The payment is £25 for each 7 day period of very cold weather between 1 November and 31 March.
4. Warm Home Discount Scheme 2018/19, Final Stage Impact, Assessment BEIS, June 2018.
5. In particular, it does not account for any potential future increase in the size of the eligible WHD cohort nor does it account for any potential future increase in the rebate amount to adjust for energy costs and inflation.
6. Business and Energy Secretary Greg Clark said: "the effects of energy price rises are often felt most by those on the lowest incomes. Enabling energy suppliers to establish who should be on Ofgem's safeguard tariff cap will help these vulnerable consumers. The proposed amendments to the Digital Economy Act will allow suppliers to work with government to carefully identify those whose energy bills are high and potentially putting them in financial difficulty. These people can then be placed under Ofgem's safeguard tariff cap, protecting them from high bills and unfair price rises".
7. In 2017/18 NEA led five industry initiative schemes, helping approximately 4,000 people with their energy bills. For further information please contact peter.smith@nea.org.uk.
8. This figure is estimated, based on figures provided by BEIS based on data from DWP. The estimate of Broader Group recipient's communications with the BEIS Warm Home Discount team who estimate from DWP data that a further 1.7m households are captured by the mandatory broader group criteria. An estimate of all customers that qualify for the Broader Group would result in an increase of over a million, based on the WHD 2019/19 Impact Assessment (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/716463/Warm_Home_Discount_FS_IA_Signed.pdf)
9. For the existing scheme numbers, the BEIS impact assessment assumes that some of the industry initiative money is used for rebates. The table is consistent with this, for the existing scheme. For the proposed scheme, we assume that no industry initiative money is spent on rebates.
10. See: https://www.ofgem.gov.uk/sites/default/files/docs/2015/04/smi_methodology_apr2015_0.pdf
11. See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/716463/Warm_Home_Discount_FS_IA_Signed.pdf (p.31)
12. CCC, 2017, Energy Prices and Bills - impacts of meeting carbon budgets, Annex Levy Control Framework costs and cost sensitivities: <https://www.theccc.org.uk/wp-content/uploads/2017/03/Energy-Prices-and-Bills-Committee-on-Climate-Change-March-2017-Annex.pdf>
13. This cost takes account of the £476m spending envelope only and excludes any administration costs that may be incurred and passed on by suppliers for delivering WHD.
14. This is based on the price cap for the average dual fuel customers, as of January 2020. The cap will increase on April 1, 2020, meaning that the percentage of the bill that an increased WHD levy would account for would change.



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Action for Warm Homes

www.nea.org.uk

NEA, West One, Forth Banks, Newcastle upon Tyne, NE1 3PA
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