

# Warm Home Discount Scheme 2018/2019

## Energy UK response

29 April 2018

### Introduction

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. In this context, we are committed to working with Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. At the same time, Energy UK believes in a stable and predictable regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy.

These high-level principles underpin Energy UK's response to BEIS's consultation on Warm Home Discount Scheme 2018-2019. This is a high-level industry view; Energy UK's members may hold different views on particular issues. We would be happy to discuss any of the points made in further detail with BEIS or any other interested party if this is considered to be beneficial.

### Executive Summary

Energy UK welcomes the publication of this consultation on the Warm Home Discount Scheme 2018/19 and is grateful for the opportunity to respond to the Government's proposals for the future scheme.

Energy UK members take their obligations to their customers, especially those in or at risk of fuel poverty, very seriously. No one should see their health suffer because they can't heat their home. It is crucial to recognise that fuel poverty is a societal problem that results from collective choices made over a long period of time. One of the chief causes of fuel poverty in Britain is the poor condition of the housing stock.

Energy UK members believe that fuel poverty should be addressed at its root causes through greater societal action on energy efficiency and poverty reduction. The Warm Home Discount can help alleviate the symptoms but is not the cure for the problem.

While the Warm Home Discount is on its own insufficient to address the root causes of fuel poverty, it is important that temporary support like WHD remains in place for fuel poor customers, until such time that the problem of fuel poverty is greatly reduced through effective action.

While we recognise the need to extend the current WHD scheme to ensure that there will be a scheme in place for 2018/19, we are concerned that it has taken Government so long to be in a position to consult on this scheme. In addition, we are concerned that Government are consulting on having the

scheme run for nine months with proposed end in March 2019. We understand that this is because Government are keen to ensure that the rebate payments are made during the winter months but that the proposed end date would also allow for Government to carry out significant reforms (such as implementing wider data share) to the scheme. We recognise this challenge and support, in principle, that payments should be made during the winter months and we are keen to see wider reforms to WHD to improve targeting and data sharing. However, timescales remain a challenge and for this reason, consider that scheme year 2018/19 should end in May 2019 to allow suppliers the normal amount of time to deliver their obligation. This is particularly important in regards to Industry Initiatives which will see spend go up by £10 million in accordance with the proposals as outlined in this consultation.

Lastly, we would urge Government to commit to reforming the Warm Home Discount scheme from 2019/20 which includes designing the scheme to make use of available data sharing mechanisms. Energy UK members would support a shift to a fully data matched Broader Group, in essence combining the current Core and Broader Groups to one larger Core Group in the future. Due to timescales, Government has put this off for previous scheme years but it is imperative that Government now commits to going through with this process and consider the Digital Economy Act a welcome opportunity for BEIS to proceed. A later end date for Scheme year 8 (May 19) would provide additional time for its successful implementation.

#### Detailed responses to 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, Energy UK agrees. With the Core Group due to diminish in size and with a corresponding rise in the Broader Group, increasing allowance spending on Industry Initiatives is welcome.

**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, we agree.

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

No, Energy UK does not agree with this proposal.

In view of their historical success, the majority of Energy UK members do not consider that the cap on debt assistance schemes should be reduced further. The debt assistance provided by obligated suppliers, normally through trust funds is carefully evaluated and targeted to ensure it delivers cost effective support to customers in or at risk of fuel poverty. The valued relief that debt assistance can offer low income and fuel poor customers is well recognised. As previously noted by Ofgem, 'wiping the slate clean have the very positive effect of helping the customer remain debt free for the long term.'<sup>1</sup> Furthermore, in their WHD Annual Report 2014/15, Ofgem noted that:

*“Debt assistance tends to focus on the most vulnerable consumers who find it most difficult to pay for heating, as they are trying to pay back existing debts as well as the costs of ongoing usage. Consumers being helped with debts are also given advice and support to manage their debts in future. The immediate improvement in ability to pay heating costs justifies the funding provided to individuals, and we have found over the course of the scheme that more than half of consumers given debt assistance manage to remain debt-free for at least 12 months after receiving help”<sup>2</sup>.*

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<sup>1</sup> Ofgem, Warm Home Discount: Annual Report 2013/14, October 2014

<sup>2</sup> Ofgem, Warm Home Discount: Annual Report 2014/15, October 2015

Given the short timeframes the feasibility of setting up brand new Industry Initiatives to utilise the funding previously focused on debt assistance must also be considered. Given that Government is currently consulting late on scheme year 2018/19, we question whether establishing brand new Industry Initiatives to replace long standing and successful customer support mechanisms is a proportionate and cost-effective way of supporting fuel poor households.

**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 in our response to question 3, Energy UK does not agree that Government should reduce the cap on debt write-off and do not, therefore, believe that it should decrease further in each subsequent scheme year.

**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?**

Energy UK agrees with this proposal. The advantage of including this provision, as Government itself points out in its consultation document, would be that households who do not meet the criteria for Core and Broader Group but are living in or at risk of fuel poverty would be able to receive some support. This provision could also have the potential to improve targeting of fuel poor households who are not necessarily in receipt of benefits.

**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.**

Energy UK would encourage Government to set out its reasoning for capping the provision for financial assistance with energy bills at £5m, or 12.5% of Industry Initiatives spending. In addition, we would also urge Government to consider whether suppliers should be allowed to decide what proportion of their Industry Initiatives spending should come in the form of financial assistance as opposed to being determined by a cap.

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

It is a helpful starting point to aim for the financial assistance with energy bills to be equivalent to the amount of the WHD rebate. However, Energy UK considers that there should be some flexibility for suppliers to go both above or below that amount in order to provide individual households with the help they are most in need of. This would also be consistent with the Industry Initiatives scheme for park homes.

### **Multi-year Regulations**

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

Energy UK agrees that Government should issue Regulations covering the scheme until 2020/21. We would welcome this move, in particular, if this will allow for Industry Initiatives that can run across multiple scheme years. This would have the potential to significantly lower the administrative burden on both suppliers and Ofgem.

While we would welcome this move, Energy UK would stress that Government will need to put a robust process in place that allows oversight for suppliers on when changes are made to the scheme. We would, however, like to make it clear that introducing multi-year Regulations should not be an excuse for Government not making scheme reforms (i.e. increased data matching for 2019/20).

Lastly, we would also urge Government to seek to gain early clarity on whether the Scottish Government intends to make use of its powers over WHD. Should the Scottish Government decide to use the powers, the regulations would have to be amended.

### 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?**

In the absence of wider data sharing, Energy UK agrees that the eligibility criteria should be retained in 2018/19 for those people in receipt of Pension Credit Guarantee Credit.

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

As highlighted in the consultation document, WHD rebates are not currently as well aligned as they could be with the Government's fuel poverty strategy<sup>3</sup>. There is evidence that some WHD rebates are currently going to households in the top income deciles. Using DWP data on the lowest-income recipients of social security payments combined with valuation office data on how hard it is to heat certain homes, it should be possible to accurately target WHD payments at those who are most at risk of being in fuel poverty.

For the Government to continue to target WHD rebates at a group of households it knows to be an imperfect fit with the Low Income High Cost (LIHC) definition of fuel poverty when an alternative approach exists would be to willfully misallocate funds paid for by raising the price of all energy bills. Energy UK members would not support this approach.

Energy UK members do however appreciate the political constraints around changing the eligibility for WHD payments. To improve the targeting of the scheme would create a cohort of people who have become accustomed to receiving the payment suddenly losing out on it. This is an issue to be considered seriously but it is not a reason to continue knowingly paying out the rebates to households who are not in or at risk of fuel poverty.

If Government do decide to make changes, then Energy UK members are committed to working with Government to develop approaches to changing the eligibility for WHD payments that minimises harm for current recipients. It is, however, essential that any changes are fully consulted on and that sufficient time is built into the process to ensure effective implementation. We would expect that sufficient time would be, at a minimum, around six months.

In addition, Energy UK are fully supportive of data sharing in the design of the WHD scheme. Energy UK members would support the shift to a fully data matched Broader Group, in essence combining the current core and Broader Groups to one larger core group in the future.

### The Broader Group

#### **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)?**

Energy UK would agree with this proposal but would highlight that some suppliers already go outside the mandatory criteria in meeting their Broader Group obligation. If Government decide to go ahead and amend the standard criteria, as a point of principle, we consider that verification checks should be available via the DWP. Suppliers have found that with UC, the DWP has had problems with verifying customers in receipt of UC. Government should consider whether the DWP at present will be able to handle these added criteria on the scale that would be required by making it mandatory.

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<sup>3</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/408644/cutting\\_the\\_cost\\_of\\_keeping\\_warm.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408644/cutting_the_cost_of_keeping_warm.pdf)

**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?**

In line with our response to question 11, Energy UK agrees with this proposal.

**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?**

As set out throughout this response to this consultation, Energy UK strongly considers that the WHD scheme should be reformed in line with our position as set out in response to question 10.

**Value of the rebate**

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

The value of the rebate is firmly a matter for Government to decide on the basis of the funding available, the number of people they want to help and the impact on consumer bills.

**Participation threshold**

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

Energy UK members support a shift to a fully data matched WHD Broader Group, in essence combining the current Core and Broader Groups to one larger Core Group in the future. Energy UK members also support the idea of a centrally administered pot of money for Industry Initiatives. Although it is worth pointing out that this is one of several options for Industry Initiatives going forward and some suppliers may prefer a different approach. We believe both reforms would significantly reduce the compliance costs associated with participation in the WHD scheme for all market participants, the main reasoning behind the existence of the WHD small supplier exemption.

Therefore, if the WHD scheme was to embrace full data sharing and a central pot for Industry Initiatives, Energy UK would support a reduction in the threshold for participating suppliers to ensure more customers can access support via WHD

**Operational changes**

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

Energy UK considers that others are better placed to respond.

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

No, Energy UK does not agree that the scheme year should end in March 2019. We acknowledge that Government might wish to see payments to customers made during the winter months which is a desire that suppliers share. However, we are in a situation where the consultation on the scheme is late and where Government are only consulting on the scheme running for nine months.

Given the likely higher than expected increase in Broader Group rebates, (driven by the higher than expected inflationary increase in spend and ongoing reduction in Core Group numbers) obligated suppliers will likely have to find significantly more eligible customer than had been originally expected. There is then a knock-on impact in terms of verifying eligibility, being able to make the payments and a potential delay in customers redeeming their vouchers (PPM).

With an added £10 million going into Industry Initiatives and further changes being made to the scheme, suppliers will need time to make changes to their delivery mechanisms. We further note that with a shortened scheme, there will be significant pressure on the verification process and with wider changes

to benefits (Universal Credit), this could be of concern in terms of deliverability of the obligation. We therefore consider that the scheme should end in May 2019.

**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, Energy UK agrees but ideally prefer to see a rise to 10% to allow greater flexibility for suppliers in delivering their obligation. This will be particularly important in light of the tight timescales for scheme year 7. With Government consulting on multi-year regulations, we would urge BEIS to set out provisions for flexibility in these regulations.

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

As long as any changes to the design of the scheme are minimal then there should be no issues or risks associated with allowing suppliers to start Industry Initiative activities before the regulations are in place. We do note that whether any Industry Initiatives activity is commenced before the regulations are in place will be at the discretion of individual suppliers. In order to aid any potential activity, we would like to see the process changed so that if Ofgem has previously approved an Industry Initiative the approval process is simplified and made less time consuming.

**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 year?**

As we noted in our response to question 17, we consider that the proposed timetable for scheme year 2018/19 is too tight and should be extended to end in May. If Government decide to proceed with the proposed timetable, Energy UK would highlight that three and a half months leaves suppliers, especially newly obligated suppliers which have no experience to rely on, with very little time to determine whether any of their non-core obligation will need to be transferred to Industry Initiatives. A scheme ending in May 2019 would give suppliers sufficient time to understand whether their Broader Group target is at risk and to deliver additional Industry Initiatives to bridge the gap in the non-core obligation.

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

Yes, but with multi-year regulations in mind, we consider that Government should clearly set out in the Regulations what would happen the following year especially if it is Government's intention to carry out wider reform to the scheme.

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

Yes, Energy UK considers that the timeframe for Ofgem to respond to notifications should be 20 working days at most. Ofgem must, however, also ensure it is adequately staffed to deal with notifications on a 20-day response timeline as well as looking at the process for previously approved Industry Initiatives. As noted in our response to question 19, if Ofgem were able to approve or extend the approval notification of existing Industry Initiatives schemes (previously accepted by Ofgem) which have not materially changed from scheme year 7 to 8, this would have significant benefits. Allowing the automatic continuation would reduce the commercial risk held by supplier but also free up the Regulator's time and resources in order to be focus on assessing future Industry Initiatives projects, particularly those in the planned financial assistance category.

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

Analysis done by the former Department for Energy and Climate Change (DECC) and seen by Energy UK showed that WHD rebates are not currently as well aligned as they could be with the Government's

fuel poverty strategy<sup>4</sup>. There is evidence that some WHD rebates are currently going to households in the top income deciles. Using DWP data on the lowest-income recipients of social security payments combined with valuation office data on how hard it is to heat certain homes, it should be possible to accurately target WHD payments at those who are most at risk of being in fuel poverty. We would strongly urge Government to reform WHD in time for future schemes to enable better targeting of support to households in risk of or living in fuel poverty.

**For further information or to discuss our response in more detail please contact Cecilie Ingversen on 020 7747 2969 or at [cecilie.ingversen@energy-uk.org.uk](mailto:cecilie.ingversen@energy-uk.org.uk).**

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<sup>4</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/408644/cutting\\_the\\_cost\\_of\\_keeping\\_warm.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408644/cutting_the_cost_of_keeping_warm.pdf)