

Citizens Advice Response - DECC's Warm Home Discount 2016/17 Consultation



Introduction

Thank you for the opportunity to respond to this consultation on the future of the Warm Home Discount.

Citizens Advice service has statutory responsibilities to represent the interests of GB energy consumers. As part of this, we have particular duties relating to the representation of vulnerable consumers and regularly carry out analysis of our own data and other research in order to establish how best their interests can be guarded.

Given our aim of reducing consumer detriment and improving access the energy market, we are fully supportive of the extension of the Warm Home Discount (WHD), a positive measure that helps vulnerable people to meet the cost of the energy they need to heat their homes through the winter.

We are encouraged by the high level of cooperation between different parts of government that the scheme represents. This cooperation, through the data matching process, allows it to be administered efficiently and accurately to the majority of recipients. Therefore we welcome greatly plans outlined in this consultation to extend data matching, and look forward to advising DECC which households should be included in that exercise.

Alongside this, our response advocates other improvements to the scheme including the incorporation of more energy suppliers and better administration to PPM users, many of whom are at great risk of self disconnection during the winter.

1. Do you agree that the Core Group eligibility criteria should be retained for those people in receipt of Pension Credit Guarantee Credit in 2016/17?

2. Do you agree that we should keep the Broader Group element unchanged?

In the absence of new data matching powers, we agree that it is prudent to keep the WHD Scheme criteria the same for 2016/17.

However, the scheme's dual aims of reducing fuel poverty and alleviating the distributional impacts of higher energy bills on low income and vulnerable households do not necessarily pull in the same direction. The second is more open to interpretation than the first, meaning that policy made on this basis will not necessarily target those most in need. While this would not be a problem if the discount were to be administered to all eligible households, under the current arrangement whereby the broader group only receive support on the contingency that they are aware of and apply for the discount in good time, it is more contentious.

More generally, there are significant asymmetries in the level of financial support available to different categories of fuel poor energy consumers. DECC has previously identified¹ the following groups as being at greatest risk of fuel poverty -

- Those living in less energy efficient homes (including those without access to mains gas);
- Those in the lowest four income deciles, with fuel poverty concentrated to the greatest extent in the lowest two deciles;
- Those living in rented accommodation;
- Unemployed households;
- Lone parent households, and those in which the youngest member of the household was aged 16-24.

Of all fuel poor households, the percentage with someone over the age of 60 had fallen from 35% in 2003 to 23% in 2013². This is a welcome improvement in living circumstances for older people but it does highlight a changing demographic for fuel poverty which has not necessarily been reflected in the makeup of the WHD, nearly two-thirds of which continues to be aimed at the Core Group.

¹ <https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2015>

² DECC, Annual Fuel Poverty Statistics report 2015

<https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2015>

It is important that, wherever possible, government takes an approach to administering the discount which makes use of the best available evidence. For example, should policy makers believe they have appropriate data and methods to allow them to identify Low Income High Cost energy consumers or where households need to heat more to achieve thermal comfort, that data should be used in order to better target the scheme. Due to its high levels of efficiency and certainty, we are encouraged by the plans outlined to extend data matching in future years - it has been a highly popular delivery method. In research about data matching for the Energy Rebate Scheme (the WHD's forerunner), respondents were found to be 'generally quite content with this particular use of data...because they trusted the users of it (and) they thought the rationale was beneficial'³. Our polling also found that 57% of consumers would be happy for their data to be shared with their energy supplier if it led to a guaranteed benefit - just 22% said they would object⁴.

We urge the Government to hone in on what it believes the scheme should achieve. If it is primarily intended to target fuel poverty and associated vulnerability then parameters around and qualifiers for the scheme, including the makeup of the Core and Broader Groups, should be reviewed next year in line with the new data available to DECC.

3. Do you agree that the value of the rebate should be £140 in 2016/17?

Based on the difficulty and knock on effects of changing the scheme so close to the date planned for establishing next year's requirements, we would agree that the value of the rebate should remain the same. However, we favour DECC developing a more sophisticated mechanism for determining the value of the rebate in future years.

It is true as the consultation states that energy prices in general have remained stable over the last two years but this masks significant variation in what different consumers pay. In recent times price decreases for fixed deals have been dramatic but standard variable prices have remained stubbornly high. Further, analysis we commissioned last year highlighted that just 12 per cent of the lowest income consumers are on the cheapest tariffs, and 74 per cent of this group has never switched⁵.

³ James Holland, 2011, *Evaluation of the Energy Rebate Scheme - qualitative research with customers*, DWP

⁴NatCen and Centre for Sustainable Energy, 2015, *Data sharing to target fuel poverty - a report prepared for Citizens Advice*

(<https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/DataForFuelPovertyTargetingReport.pdf>)

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<https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/funding-and-responsibility-for-tackling-fuel-poverty-in-england-should-be-devolved-to-councils/>

The high prices paid by vulnerable consumers can reasonably be expected to temper the benefits they realise through their receipt of the Warm Home Discount. Therefore, rather than a sum which is based on a pragmatic judgement of spreading the benefit as far as possible (which appears to be the current rationale) the discount could be graded to reflect the characteristics of the recipients such as household size, payment method (PPM consumers generally pay the highest prices so would need a bigger discount in order to achieve the same level of thermal comfort), household income and the energy efficiency of different dwellings. If two or three rates were introduced, accounting for these factors, it would ensure that the benefit is targeted appropriately at those in most need. Any such exercise would need to be designed very carefully so as not to unintentionally increase the burden of administering the discount.

We made a similar comment (below) in response to DECC's consultation on the extension of the scheme for 2015/16, and are hopeful the points can be acted on -

In order to ensure ongoing affordability for recipients, it would in our view be desirable to have WHD track bill increases or be pegged to covering a certain percentage of the average fuel bill (the level of both could be set in advance, based on industry forecasts). In any case, we believe it would be appropriate for the UK Government to review its underlying methodology for the scheme. In the longer-term, we believe that fuel-related benefits should bear a much closer relation to fuel bills. The UK Government has already indicated in this consultation its consideration of a higher rate of subsidy for people living off the gas network. In addition to this, higher rates could be given for people living in F and G rated properties, as identified by the EPC Register or other reasonably viable proxies⁶.

4. Do you think the current range of activities that count as Industry Initiatives represent value for money? Are there any other activities that should qualify as Industry Initiatives that currently do not? Are there any activities that currently count as Industry Initiatives that you think should not? Please provide evidence to support your answers.

Industry initiatives are a positive feature of the scheme. They allow for innovative approaches to be taken in the identification and assistance of vulnerable consumers. They also allow for industry collaboration and so bring economies of scale to projects.

However, that this question is being posed highlights the lack of evidence which exists for the efficacy of some industry initiative schemes. Without such evidence it

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https://www.citizensadvice.org.uk/global/migrated_documents/corporate/citizens-advice---response-to-consultation-on-warm-home-discount-extension-to-2015-16-1-.pdf

is very difficult to determine with certainty the relative value of different projects. The evidence made available in this consultation, a figure for the number of consumers reached, is insufficient to allow such a judgement to be made. In how many advice-only cases did consumers act on the information? For those who received benefits other than advice, what was the impact on their living situation? What was the net impact on the fuel poverty gap? These are difficult but necessary questions. In future scheme years, DECC should require suppliers to monitor and report more specifically on the impact of their industry initiatives spending.

An industry initiatives scheme for which there is good evidence of impact is Energy Best Deal (EBD). EBD has run for the last 8 years; it provides energy information and awareness group sessions in local community settings and to date has reached 70,000 consumers and frontline workers. Each year, the impact of the programme is independently evaluated. The evaluation of the 2014/15 programme was carried out using paper questionnaires completed immediately following the session, and follow-up telephone interviews carried out an average of three months after the session. A total of 9,388 questionnaires and 301 telephone interviews were completed. The ongoing effect of the Energy Best Deal 2013/2014 programme was also investigated, using a smaller sample of 50 interviews with people who attended Energy Best Deal sessions in 2013/2014. Almost all consumers (97%) who responded to the questionnaire after attending a 2014/15 session said they found the session useful and 89% of consumers said they would probably or definitely do something as a result of the session. The most popular planned actions were related to finding a better tariff, doing something to save energy at home, and telling other people what they had learnt at the session. Subsequently, 150 consumers were interviewed by telephone an average of three months after the session; 33% had looked for a better deal on their energy bills since the session. Of these fifty-one who looked for a better deal, 29 were offered a better deal (either by their own supplier or a different supplier), with 28 of these (18% of all consumer interviewees) switching or planning to switch to the better deal. Consumers were also asked about other actions relating to seeking further advice, energy efficiency and applying for grants and other support. When these actions are also taken into account, 57% of consumer interviewees had taken some kind of action following the session, 26% had taken some kind of action to save energy in their home and 9% had applied for the Warm Home Discount.

EBD is currently funded from five energy suppliers' industry initiatives spending. This means it aggregates resources and minimises management costs. In their response to this consultation Ofgem E-Serve comments that this approach represents value for money -

We have found greater value where there are multi-supplier schemes, allowing them to achieve economies of scale and reduce management costs as a proportion of total

spend. As such, we would encourage suppliers to consider this approach in the next scheme year⁷.

5. What are your views on suppliers having the option to achieve part of their Industry Initiatives spend through contribution to a central pot of funding in future years, which could then be used to fund innovative approaches to reaching and supporting those in greatest need?

As mentioned above, we welcome the economies of scale that can be realised when suppliers pool resources, and so welcome the idea of an optional central pot of funding for the industry. As identified, this could help to leverage greater resource to important projects, and help smaller suppliers to reduce their administrative burden when joining the scheme.

It is a major concern that some of the most needy consumers do not claim their benefit entitlement, and thus fall under their energy supplier's radar when it comes to WHD. In order to ensure that energy suppliers are considering consumers as a whole, rather than solely on the basis of discrete initiatives, it would be a good idea for innovative schemes to link up with activities carried out in the course of the Energy Company Obligation, Smart Meter Rollout and other Government mandated programmes already reaching out to large numbers of vulnerable or fuel poor consumers. This approach will help to ensure a holistic view of household situation is taken into account when prescribing remedies to issues consumers are having in the energy market. We are keen to hear more about how such a link will operate in practice. One way it could be delivered is by ensuring energy suppliers are obliged to install ECO measures in the homes of any WHD recipients who apply for them.

In terms of administering the central funding, we believe that Ofgem as the energy sector regulator is well placed to do this. Ofgem has a purview on the activities of market participants and works with suppliers to help them do better for their vulnerable consumers as part of its Consumer Vulnerability Strategy. It also has the benefit of experience, having administered other schemes that sought to allocate funding to innovative policy solutions, including the Low Carbon Network Fund⁸.

⁷ https://www.ofgem.gov.uk/system/files/docs/2016/04/whd_consultation_ofgem_response_final_260416.pdf

⁸ <https://www.ofgem.gov.uk/electricity/distribution-networks/network-innovation/low-carbon-networks-fund>

6. Do you agree that Government should place a cap on the amount of each supplier's Industry Initiative spend that can be spent on debt assistance? What are your thoughts on the cap being set at 50% of each supplier's Industry Initiative spend in 2016/17?

With reference to debt assistance, a limit for which was also discussed in the consultation for the WHD 2015/16 extension, our position remains broadly similar -

Concerning debt write-off, we acknowledge the value of this activity as it can be a great help to individual consumers. However, it effectively allows suppliers to reassign funds in order to improve their balance sheets, so for that reason can be said to contain an element of self-interest⁹.

It is important for DECC to assess how far debt write-off goes to achieving the aims of the Warm Home Discount, and whether in its absence suppliers would continue relieving debt as part of their business-as-usual debt management and corporate social responsibility work. If it is judged that this activity will not suffer should a industry initiative debt assistance cap be introduced, then there is a clear imperative to reassign funding to a cause which adds genuine value to the scheme. In such a situation it may be appropriate to consider whether any debt assistance cap should be lowered below the proposed 50% threshold, we note that the cap was 10% when social tariffs were first introduced.

Should the rationale for limiting debt assistance be that there are more cost effective ways to help consumers, we would expect a more detailed breakdown of its relative merits versus other activities to be made before any decision is taken. As per our answer to question 4, it would be appropriate to require schemes gather information, such as improvements to the situations of consumers who received the support, in order to inform this analysis.

7. Do you agree that there should be no provision for any overspend to reduce future non-core obligations?

We agree that this it is sensible to take this approach, particularly given prospective improvements to the scheme that are expected in 2017/18. Should overspend be allowed and then the scheme change significantly, diminished supplier funds may lead to the new scheme arrangements having less impact than desired, and beneficiaries receiving less support.

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https://www.citizensadvice.org.uk/global/migrated_documents/corporate/citizens-advice---response-to-consultation-on-warm-home-discount-extension-to-2015-16-1-.pdf

8. Should spending targets be adjusted so that actual spending reflects the number of PPM customers benefitting from the rebate?

Yes, this would be a welcome improvement on the current situation. PPM households account for nearly a third of the fuel poor¹⁰, 28% of them are in the 'unplugged' group that Ofgem considers least likely to switch¹¹ and a third of them contain a person with a long term illness or disability¹². Moreover, the Competition and Energy Markets Authority found earlier this year that the difference between the cheapest direct debit and prepay tariffs was between £260 and £330, depending on the region¹³. This evidence suggests that PPM households are, in general, more vulnerable than other energy users and are situated in a market which is less competitive. The fact that they have no guarantee over how or when they receive their Warm Home Discount is another source of potential detriment for this group.

Given these difficulties, we greatly welcome the prospect of removing non-redeemed vouchers from suppliers' WHD spending totals. In order to ensure any redirected resource is targeted broadly at households who may have missed out, we would favour a requirement ensuring any recycled spending as the result of unused vouchers be directed at helping PPM consumers.

Another issue with PPM WHD rebates requires attention and is important for DECC to consider as part of any scheme improvements; PPM consumers pay for their energy upfront, therefore in order for them to realise the goal of increased comfort in winter it is essential that their discounts are paid ahead of the coldest weather. The prospect of PPM consumers receiving their WHD in March, or even May, makes us fearful that more could self-disconnect¹⁴ or underheat their property during the preceding winter months because they do not have the funds to top up. In order for the discount to have the desired effect for these consumers, we urge DECC to require that it is administered by suppliers as a priority, ahead of other scheme discounts.

Beyond this, we are not convinced that suppliers could not do more to ensure the vouchers are cashed. A Citizens Advice information request from 2014 uncovered variable practice in terms of reminding consumers. Some suppliers simply re-issued to consumers that had not used them, and some did no follow up work at all; a minority proactively followed up with consumers to ensure the vouchers were

¹⁰ DECC Fuel Poverty tables, <https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2013>

¹¹ <https://www.ofgem.gov.uk/ofgem-publications/89113/ofgemrmbaselinefinalpdf.pdf>

¹² <http://www.consumerfocus.org.uk/publications/cutting-back-cutting-down-cutting-off>

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https://assets.digital.cabinet-office.gov.uk/media/56e1974ae5274a036b000018/Energy_PDR_Summary_March_2016.pdf

¹⁴ https://www.citizensadvice.org.uk/Global/Migrated_Documents/corporate/topping-up-or-dropping-out.pdf

cash. We want all energy suppliers to proactively remind consumers to use them, for example through emails, social media messaging¹⁵ or messaging on annual statements. Given the vulnerability of the audience in question we would expect suppliers to do everything in their power to ensure the vouchers are used.

Suppliers are able to provide the WHD to PPM consumers through a number of different methods and the problems this causes in terms of unclaimed discounts is highlighted by this consultation. We want DECC to encourage suppliers to automatically administer the benefit to consumers wherever possible. The advent of smart meters should make this much easier, as the supplier could simply send a command to the meter adding the top up to the consumer's balance. Whilst non-technological solutions can help remind consumers to act, automation is ultimately the only means of ensuring that consumers receive the discount.

9. Do you foresee any issues with the scheme year for 2016/17 running from August to May?

As per our comments above, we are concerned about the discount being paid to consumers too late in the year for them to use it to improve their thermal comfort, particularly for those with a PPM. In order to ensure that suppliers are doing everything they can to pay the discounts early, DECC could set monthly targets for administration of the benefit (weighted to the earlier months) and requiring suppliers to send the discount to PPM consumers as a priority, where possible. In order to introduce this, it might be necessary to add some flexibility to E-Serve's WHD audit process, which is not currently flexible enough to allow payments to be made early.

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

We envisage this may lead to minor difficulties for suppliers, for example directing their resource before they have full information on how it is permissible to spend their budget, which may lead to worthy projects missing out on funding.

However, we regard the benefit of this approach, ensuring that important initiatives can be funded without hiatus, outweighs any downside. Successful schemes such as EBD provide a cost effective and reliable source of advice and support to vulnerable consumers, and provide the additional benefit of being quick and efficient to mobilise. Should such schemes need to stop for a time, or suffer

¹⁵ Citizens Advice took a similar approach last year when reminding people about the Government's Electricity Rebate Scheme. We sent 3 tweets that were seen by a total of 2,500 people.

insecurity over their continued funding, it could put their operation in jeopardy. In a worst case scenario where these schemes closed and their replacements did not have enough time to become established, there could be a gap in support for vulnerable people in the crucial winter period - this outcome should be avoided at all costs.

11. Do you foresee any issues with suppliers having the option to pay the rebate on customers gas accounts?

This step makes good sense. In fact, it might be useful to investigate the feasibility of giving consumers a choice.

12. If the scheme is made cheaper to deliver from 2017/18, should the participation threshold be reduced below 250,000 domestic customer accounts? What would be the costs and benefits of such a change?

As a party not directly involved in administration of the WHD scheme, it is difficult for Citizens Advice to comment with certainty on the costs of the change. However, the substantially reduced amount suppliers spend on data matching core group participants as compared with soliciting applications for the broader group appears to be a good reason why that method should be central to any lowering of the threshold.

Should greater data matching not be permitted, we believe other workarounds exist to ensure that small suppliers do not incur disproportionately large costs from participating in the scheme, in particular a mechanism whereby they can centrally pool and administer broader group discounts, as advocated in Ofgem E-Serve's response -

We recognise that some smaller suppliers are at risk of not being able to meet their Broader Group obligation due to higher search costs and increased difficulty when identifying Broader Group customers. An Industry Initiative in which a Broader Group rebate may be delivered to an eligible customer of any supplier via a third party, using either a pot of central funding or project, would provide this flexibility. Additionally, allowing a smaller supplier to provide rebates to a wider group of customers would remove a barrier to supplier switching¹⁶.

In terms of the benefits of expanding the scheme, we wrote the following as part of our response to the 2015/16 WHD consultation -

¹⁶ https://www.ofgem.gov.uk/system/files/docs/2016/04/whd_consultation_ofgem_response_final_260416.pdf

Participation in the Warm Homes Discount (WHD) should be extended to include all energy suppliers, rather than just those with over 250,000 customer accounts. The exclusion of suppliers with fewer than 250,000 customers unnecessarily advantages small suppliers at the expense of vulnerable energy consumers. The WHD is not a great burden to suppliers in terms of cost and, given the demographic which smaller suppliers serve, we understand that they are unlikely to have large numbers of eligible customers in any case¹⁷.

If anything, the advantage small suppliers have at the expense of vulnerable consumers is even larger now, given that the domestic energy market has expanded to well over 30 participants, and that small suppliers are picking up customers at an unprecedented speed¹⁸. This makes the barrier to growth argument for the threshold far more contentious than it was when the scheme was first introduced, as the market now has many more suppliers.

We note the impact assessment assumes that ‘the WHD scheme does not have any impact on switching’. This assessment ignores a clear risk to consumers of switching and losing their discount, which could lead to their losing faith in the market and has been raised previously by Ofgem among other parties. In addition, well established theories of consumer behaviour concerning status-quo bias and loss aversion indicate that any downside takes on great significance in determining whether consumers exercise their market power. Irrespective, the chances of a consumer switching unknowingly to a non-WHD supplier and then missing out on the discount have risen along with market competition. This pitfall, which a high number of low income households are exposed to, undermines DECC’s work to emphasise the benefits of switching¹⁹ and therefore is important to address. Set out below are two case studies highlighting instances where switches have been complicated by disputes over WHD, leading to poor consumer experience of the switching process -

Case study 1

The consumer had applied for Warm Home Discount. She received a letter stating her application had been rejected as the gas and electricity supplies were no longer with them.

She did not recall requesting a transfer and was not aware this had happened. The new supplier stated a transfer had been requested on Uswitch but the consumer disputed this.

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https://www.citizensadvice.org.uk/global/migrated_documents/corporate/citizens-advice---response-to-consultation-on-warm-home-discount-extension-to-2015-16-1-.pdf

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<http://www.telegraph.co.uk/news/earth/energy/11883925/One-million-households-ditch-the-Big-Six-energy-suppliers.html>

¹⁹ The main message of DECC’s 2015 Power to Switch Campaign was that switching would save most households around £200

<https://decc.blog.gov.uk/2015/03/13/the-power-to-switch-campaign-gets-off-to-a-flying-start/>

A transfer was arranged back to the original supplier however, this was under a new contract rather than an Erroneous Transfer. By the time the transfer had completed the original supplier's Warm Home Discount scheme had closed and they said they were unable to process an application.

Neither supplier accepted responsibility and the consumer lost out on the Warm Home Discount payment.

Case study 2

The consumer transferred supplier in November 2015. She had successfully applied for Warm Home Discount under the original supplier's broader group scheme. The sales agent of the supplier she transferred to had informed her the payment would be made even if she transferred.

The original supplier would not pay the Warm Home Discount as she had transferred away and it was too late to apply to the new supplier's scheme. The new supplier agreed to pay the consumer £140 goodwill (the equivalent of the Warm Home Discount payment) given the sales agent had provided incorrect information.