

# Consultation Response

Ref 1718

## Response to BEIS consultation on the Warm Home Discount Scheme 2018/19

April 2018

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## **Age UK**

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances.

In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

## **About this consultation**

In March 2018, the Department for Business, Energy and Industry Strategy (BEIS) published a consultation on the Warm Home Discount (WHD) scheme 2018/19.<sup>1</sup> We welcome the opportunity to respond to this consultation. We respond only to selected, relevant questions.

## **Key points and recommendations**

1. We agree with the proposed increase in the cap on Industry Initiatives spending, as it provides much-needed flexible support for people at risk.
2. We agree that a local authority declaration under ECO should be used to identify households eligible for support under Industry Initiatives.
3. We are concerned that sustained and significant cuts to the debt write-off cap could have an unwelcome cumulative impact if households continue to face energy debt.
4. We agree that activities under Industry Initiatives should include financial assistance with energy bills, to help tackle emergency situations.
5. We agree that Core Group eligibility should be retained for 2018/19.
6. In the longer-term, the Government should consider reform and new data-matching opportunities to ensure those in the coldest homes and in a range of circumstances receive support.
7. This should include finding a solution to the fact that many older people eligible for Pension Credit do not claim it and so miss out on support through the WHD.
8. We believe there continues to be a vital role for the WHD, and that there is an argument for increasing its value in future to reflect the cumulative effects of inflation. The Government should regularly review this option.
9. Given the changing nature of the energy market, we believe there is a case for reducing the supplier obligation threshold, over time, and possibly in stages
10. There is a pressing need to ensure households do not lose the WHD as a result of switching supplier. There should be a duty on the gaining supplier to review the new customer's eligibility and notify them of the loss, giving them a chance to change their mind, and price comparison services should flag this risk more clearly.

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

Yes. Industry Initiatives funding ensures people who are vulnerable to the effects of living in a cold home but do not receive benefits, as well as park home residents, get some much-needed support. Age UK provides services funded through Industry Initiatives that result in meaningful improvements in people's situation, including –

- Additional income through benefits maximisation.
- Practical home energy efficiency improvements, such as draught proofing.
- Help with billing disputes and debt.
- Support to switch energy tariff or supplier.

Age UK has also highlighted the fact that many park home residents are at risk of cold homes.<sup>2</sup> We estimate there are over 100,000 older people living in park homes in England and Wales. They face challenges including inefficient homes, high fuel costs and lack of access to efficiency schemes. The support they receive through Industry Initiatives is vital.

**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. This is a pragmatic and flexible approach to identifying households who need support.

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

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

We note with concern that multiple 5 per cent yearly reductions would result in a significant reduction over time – falling from £15m in 16/17 to £6m in 20/21. Wider debt trends suggest that energy debt continues to be a problem for many households. Evidence from the debt charity Step Change shows that 14.5 per cent of clients are in electricity arrears, and 11.9 per cent are in gas arrears. These proportions have stayed fairly consistent between 2013 and 2017.<sup>3</sup>

Ofgem should monitor energy debt levels over time and review whether the proposed reductions in debt write-off should be paused to help customers in debt.

**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?**

Yes. Some households find themselves in emergency situations where they have to turn off their heat due to a lack of income, leaving them at serious risk of deteriorating health. This includes some households that do not meet the Core or Broader Group criteria. See the example in Box 1.

**Box 1. Emergency financial assistance needed**

We were made aware of a family in a rural area who were not eligible for support under the Core or Broader Group.

One partner was working, while the other had a chronic respiratory health condition. The working partner earned just over the threshold for welfare benefits, so the family had a fairly low income overall.

They were private tenants in an old, poorly-insulated property off the gas grid, requiring expensive oil for heating.

During a recent period of cold weather, the family used up the oil supply and could not afford to buy more. The house was 'like an icebox' and their children became ill. They needed but could not access emergency financial assistance.

People living in these kinds of circumstances – off the gas grid, incurring higher heating costs, living with health conditions – and others may be at severe risk and unable to claim support. Expanding the list of Industry Initiative activities to include financial assistance would add some flexibility to provide invaluable help in these kind of situations.

It is worth adding that existing activities under Industry Initiatives are immensely valuable. In our recent survey of over 2,000 people who have benefited from Age UK's services funded under Industry Initiatives, half (48%) said they put the extra income they received following support to claim benefits towards paying utility bills. This demonstrates the need to support older people to claim essential benefits and the need those people have to spend more on energy.

**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.**

While we support the inclusion of financial assistance under Industry Initiatives spending, we agree a cap is needed to protect other kinds of support, including that which makes long-term improvements to homes. We have no view on the specific level the cap should be set at, although we would expect the Government or Ofgem to monitor or model the impact of varying levels of cap on vulnerable groups.

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

Yes. This would bring a degree of fairness and consistency.

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

If the Government does issue Regulations covering the scheme until 2020/21, it will be essential to include opportunities for review. Scheme funding, the value of the rebate, participation threshold for suppliers and non-core obligation rules are all key aspects of the policy, and any significant changes must be fully consulted on.

**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?**

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

Given the timing of the new data sharing powers and limited time to make significant and accurate changes in time for winter 2018/19, we agree that Core Group eligibility should be retained for this winter.

In the longer-term, the Government should look at ways to improve Core Group eligibility to ensure those in the coldest homes and in a range of circumstances receive support. We believe Pension Credit Guarantee Credit (PCGC) should remain a key component of eligibility; recipients are by definition older and on low incomes. Other groups are also at risk.

Future advancements in targeting should also include ways to identify and support those older people at risk who are eligible for, but do not claim Pension Credit – nearly two out of five (38%) pensioners entitled to Pension Credit have not claimed it.<sup>4</sup> They should also aim to identify older people who are not eligible for Pension Credit because their income is just over the qualifying threshold, but who need financial support to stay warm and healthy.

Any review of Core Group eligibility could also look at whether there is a way to identify people with multiple conditions and disabilities. Housing stock data could be used to identify the most inefficient homes.

**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)?**

**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?**

Amending Broader Group eligibility in the ways proposed in questions 11 and 12 could potentially extend much-needed financial support to households in a range of circumstances. The Government should assess the likely impact of doing so, in terms of the total number of eligible households, to ensure that expanding eligibility is not achieved at the cost of excluding existing high-risk groups.

**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?**

Broadly, yes, although we are aware there are people who would benefit from the WHD who receive benefits from their local authority and are therefore excluded from the data matching process with the DWP. For example, one person contacted Age UK saying their supplier rejected their WHD application because they received Council Tax Reduction from their local authority. They said that due to being on a low income they feared the coming winter would be 'traumatic'. The Government should look at this issue in its wider consultation later this year.

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

We appreciate the tension between the size of the rebate and the number of recipients. However, we are concerned that the value has not increased since 2014, despite a 4.3 per cent increase in electricity prices in 2017 alone, plus recent price increases.

We also appreciate that the introduction by Ofgem of price caps for customers on prepayment meters and default tariffs, plus the Government's forthcoming market-wide default tariff cap, mean there is a fast-evolving landscape of financial protections. While Age UK has welcomed these price caps and the savings they bring to vulnerable households, we are concerned that the average saving provided by the vulnerable customer safeguard tariff has now dropped to around £66 per year (with some households saving even less).<sup>5</sup>

In addition, there is some evidence that caps for customers on a standard variable tariff (SVT) can be gamed by suppliers, for example by switching a customer from an SVT onto a fixed tariff but charging almost the same price.<sup>6</sup>

Given this, we believe there continues to be a vital role for the WHD, and that there may be an argument for increasing its value in future to reflect the cumulative effects of inflation. The Government should regularly review this option, including after the introduction of the next phase of the vulnerable customer safeguard tariff and/or the introduction of the Government's market-wide cap on default tariffs.

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

We believe there is a case for reducing the supplier obligation threshold, for a number of reasons.

Firstly, the market is changing rapidly, with over 60 suppliers and a reduction in the market coverage of obligated suppliers from 99 per cent to around 93 per cent. This will continue to decline, meaning a declining proportion of consumers are with obligated suppliers.

Secondly, and relatedly, there is a huge amount of focus on encouraging consumers to switch. This occurs through various campaigns advertising the potential savings, plus efforts by policymakers to make switching easier and faster. Ofgem is doing detailed work through its database of disengaged customers to find ways to encourage those least likely to switch to do so. As more and more people switch, many will switch away from obligated suppliers to non-obligated ones. It is a well-established fact that some consumers have unknowingly done this, meaning they have missed out on the savings they thought they were achieving. See the example in Box 2.

##### **Box 2. Lost Warm Home Discount during a switch**

A client contacted Age UK to describe their experience switching energy supplier. They were encouraged to switch by 'widely publicised advice' and notification of a price increase. They felt the savings were modest but worthwhile, given their low income.

They were initially happy but realised when they received a notice about the Warm Home Discount that their new supplier was not obligated to (and did not) offer it.

They think any potential 'savings' from the switch will be wiped out by the loss of the WHD, and are locked in to the new tariff until next year. They are annoyed and think this is unethical.

Lastly, increasing competition could result in some larger suppliers falling below the 250,000 customer threshold. This could result in vulnerable customers who remain with that supplier losing eligibility to the WHD, receiving it one year and – for reasons unknown to them – not receiving it the next year.

This is an ongoing and serious problem, which makes vulnerable people worse off. It also works against making switching easier, which is a key policy objective. The Government should decrease the supplier obligation threshold, perhaps in stages, to address any genuine administrative challenges for suppliers. We agree that the costs to suppliers of administering the WHD will reduce over time (e.g. through data matching), making it easier for smaller suppliers. A further option could be that new suppliers are exempt for the first number of years of their operations.

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

Following our points under Q15, we agree there is a need to provide a quality and fair service to households who may miss out on or lose eligibility to the WHD. There should be a duty on the gaining supplier to review the new customer's eligibility and notify them of the loss, giving them a chance to change their mind. There should also be a requirement on suppliers to effectively communicate to customers if they fall below the obligation threshold, i.e. highlighted clearly, with options for what action they can take.

Similarly, we think there is a key role for price comparison websites to clearly flag to users if they are at risk of losing the WHD through switching. While this is included in Ofgem's Confidence Code, there may be a need for a stronger intervention, either to ensure services not accredited by the code are brought under it, or to ensure that the warnings are sufficiently clear, visible, etc. We are unconvinced that a voluntary code of practice is a strong enough safeguard to ensure all consumers receive an adequate service from price comparison websites.

It is vital that people who would benefit most from the WHD – including those who are not online, or who may be isolated or immobile – are made aware of it in good time. For example, we received a query from one person unhappy about the limited offline information on the Broader Group and the lack of promotion of the scheme to potential applicants.

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

We would like the scheme year to end in May 2019. The suggested official start date of scheme year 8 will not be until August, and this is a much shorter scheme year than usual which would require organisations to have completed all charitable activities in a shorter timeframe. This places a great deal of pressure on delivery partners and so the additional two months would relieve some of this pressure.

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

Yes.

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

We are aware that this is a particularly busy time in terms of price cap interventions, and that this brings complexity and risk. The WHD is closely tied to the vulnerable customer safeguard tariff, being used for eligibility in its first phase. We supported this, due to the need to act quickly, but also supported Ofgem's efforts to refine eligibility criteria in future. There is a risk that those who receive the WHD, plus the safeguard tariff, benefit from 'double protection' while those who miss out on the WHD but are still at risk of fuel poverty receive neither element of support.

While there is no simple solution, this shows the importance of more flexible ways to identify households in need of support, including through local authority identification.

More broadly, the Government needs to work closely with Ofgem over the coming year to co-ordinate overlapping interventions and find accurate ways to identify people in vulnerable circumstances and at risk of fuel poverty so they receive the support they need. As this process unfolds, we think it is important that those older people who need support to heat their homes – including those on low incomes, with chronic health conditions and living in inefficient homes – will continue to receive the support they rely on, until a better solution is actually in place. We look forward to contributing to the Government's future consultation on targeting the WHD later this year.

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/696467/WHD\\_extension\\_consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/696467/WHD_extension_consultation.pdf)

<sup>2</sup> <https://www.ageuk.org.uk/documents/en-GB/Campaigns/winter%20health/4982%20Age%20UK%20ID202741%20Park%20Homes%20Campaign%20Report.pdf?dtrk=true>

<sup>3</sup> [https://www.stepchange.org/Portals/0/documents/Reports/stepchange\\_debt\\_charity\\_SMYB\\_2017.pdf](https://www.stepchange.org/Portals/0/documents/Reports/stepchange_debt_charity_SMYB_2017.pdf)

<sup>4</sup> Income-related benefits: estimates of take-up: financial year 2014/15 (tables PC1, PC2, HB1, HB2), DWP 2016

<sup>5</sup> <http://www.bbc.co.uk/news/business-42972840>

<sup>6</sup> [https://www.theguardian.com/business/2018/feb/23/big-six-energy-companies-routinely-overcharging-customers-exclusive?CMP=Share\\_AndroidApp\\_Outlook](https://www.theguardian.com/business/2018/feb/23/big-six-energy-companies-routinely-overcharging-customers-exclusive?CMP=Share_AndroidApp_Outlook)