

StepChange Debt Charity response to the Department of Energy and Climate Change consultation on the *Warm Home Discount Scheme*

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We are an independent charity dedicated to overcoming problem debt. Our advice and solutions services are effective, tailored and importantly, free. Foundation for Credit Counselling Wade House, Merrion Centre, Leeds, LS2 8NG trading as StepChange Debt Charity and StepChange Debt Charity Scotland.

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Introduction

StepChange Debt Charity welcomes the opportunity to respond to this Department of Energy & Climate Change consultation on the *Warm Home Discount Scheme*

StepChange Debt Charity is the largest specialist debt charity working across the UK. In 2015 over half a million people contacted our free telephone helpline or on-line debt remedy tool for advice and support on problem debt. As a result we have considerable experience in dealing with people who are vulnerable through financial difficulty.

Our response to this consultation will set out some general analysis of our clients' experience of fuel debt. We will follow this with brief responses to the consultation questions

StepChange clients with fuel debt

The number and proportion of people StepChange Debt Charity has seen with gas and electricity debts has grown in recent years.

In 2011 we saw 22,118 people with gas and/or electricity arrears, around 8% of our clients who were responsible for a gas and/or electricity bill. In 2015 this had risen to 71,377, around 13% of our clients who were responsible for a gas and/or electricity bill. In 2015, 77% (123,894) of StepChange telephone clients paid more than 10% of their income towards electricity and gas¹. However, only 10% of our clients with electricity or gas arrears were aged over 60 suggesting that the Warm Home Discount (WHD) Core Group is not well targeted at supporting the large group of people vulnerable to fuel debt and fuel poverty.

Looking at a sample of just over 160,000 people who contacted StepChange Debt Charity in 2015 by telephone found the following:

- People with fuel debts were more likely to be on lower incomes and in receipt of means tested, incapacity and unemployment benefits: 64% of those with fuel debts compared to 46% of those without fuel debts.
- StepChange clients with fuel debts were more likely to have children: 52% of those with fuel debts compared to 39% of those without
- Our clients with fuel debts were more likely to be in receipt of (or a household member was in receipt of) disability and incapacity benefits: 24% compared to 17% of those without fuel debts.

¹ the measure of fuel poverty formerly used in England and currently used in Scotland and Wales

As one of a group of organisations campaigning on fuel poverty and energy debt StepChange Debt Charity also sees first-hand the impact of energy debt on children and families. Research published by The Children’s Society in 2014 estimated that 1.9 million children living in poverty are not receiving the WHD and evidence from National Energy Action has found that almost 1 in 5 lone parent households are in fuel poverty.

Consultation questions

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

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

We agree that the Core Group eligibility criteria should be retained for those people in receipt of Pension Credit Guarantee in 2016/17. However, the high proportions of our clients with fuel debts who are in receipt of disability and unemployment benefits, or who have children, support the Government’s assertion that WHD support is not currently targeted towards those experiencing the most problems in heating their homes. We have previously proposed that the Government should go further by moving more low income households in fuel poverty into the Core Group² and supported the Children’s Society in their call to have families in fuel poverty included³.

Households in the Broader Group may miss out on a rebate because they are unaware of the existence of the Scheme, are with a supplier who is not obligated or their energy company is not obliged to provide the discount as the amount of support available for the Broader Group is limited⁴. People who move to a non-obligated energy supplier to gain a better energy tariff may lose their WHD. StepChange would welcome work with the Government to look at raising awareness and take up of the WHD Scheme.

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

We agree that the value of the rebate could be kept at £140 in 2016/17 in order to enable more households to access the scheme.

However, our recommendation to extend Core Group eligibility and market coverage would then require an increase in overall funding for the Scheme. Adapting 2015

² All Party Parliamentary Group Debt & Personal Finance (2014) A fairer energy market for vulnerable households meeting

³ StepChange, the Children’s Society and NEA letter to the Secretary of State 21st August 2015

⁴ Children’s Society & National Energy Action (2015) Warm Home Discount: help with energy bills for low income families.

figures provided by the Children's Society⁵, in 2016/17 there are estimated to be 1.5 million eligible households in the WHD Core Group and around 2 million eligible households in the WHD Broader Group, if low income working families are also included. This equates to 3.5 million eligible households in total. If all 3.5 million eligible Core Group and Broader Group households (including low income working families) received an automatic WHD rebate valued at the current amount of £140 this would increase the spending envelope by £167 million from £323 million to £490 million.

If Industry Initiatives was retained at its maximum of £22million (as in Year 3 of the Scheme) this would increase the spending envelope by £189 million to £512 million.

If all energy suppliers were to be obligated under a new WHD scheme⁶, but with suppliers still passing the costs on to their customers, delivery of an expanded WHD scheme to provide an automatic £140 rebate to all Core Group and Broader Group households (including low income working families) would cost approximately £10 or £20 per dual fuel customer. This equates to an increase of £6, or 0.5%, on an average annual dual fuel bill of £1,292⁷. However, this would mean an extra cost falling on some of those who are near fuel poverty or those who are not in fuel poverty but still have energy debts. In order to ensure this does not create more problems, energy companies would need to ensure they have good debt assistance, recovery and forbearance practices to support such customers.

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.

The current range of Industry Initiatives includes “providing assistance, or funding the provision by other persons of assistance to reduce or cancel debts for household electricity or gas supply, where such assistance is provided as part of a package of measures aimed at providing customers with long-term relief from fuel poverty”⁸. We recommend that there should be a separate and additional activity around supporting independent debt advice for those in fuel debt. Debt advice work provides a real return on investment to both Government and creditors. Work we commissioned from Baker Tilley with 47% of StepChange clients in one 12 month period identified £113 million savings on the social costs of problem debt and £82 million savings to creditors: a total return on investment of £12 for every £1 spent⁹.

⁵ *ibid*

⁶ The rationale for obligating all suppliers is that the administrative burden of complying with WHD is not prohibitive for smaller suppliers where automatic data-matching is used across the entire eligible customer base.

⁷ The Children's Society estimates that current added annual costs are £14 for the average domestic dual fuel energy bill

⁸ The Warm Home Discount Regulations 2011

⁹ StepChange (2014) Cutting the cost of problem debt

The link between energy debt advice and more general debt advice is important because people with fuel debts are more likely to be struggling with wider financial difficulties. In 2015, 41% of StepChange Debt Charity clients with fuel debts had a negative budget (expenditure in excess of income) compared with only 28% of those without fuel debts. General debt advice, alongside best debt recovery and forbearance practices by energy companies, allows people not only to reduce their debts, but to budget and recover control of their finances so that they can maintain payment of their on-going fuel bills and so keep heating their homes.

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?

We would support suppliers having the option to achieve part of their Industry Initiatives spend through contribution to a central pot of funding in future years, if this provided organisations delivering projects funded through the Scheme with greater financial certainty and helped them to plan ahead in the longer term.

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?

There needs to be a clearer definition of debt assistance within the WHD Industry Initiative regulations, and an additional and separate general debt advice activity.

The increasing number of StepChange Debt Charity clients in fuel debt, suggests that debt assistance in the form of writing off or reducing the debts of those in fuel poverty has not been a sufficient solution to support many of those in fuel poverty. We recommend that supporting independent general debt advice should be included as a separate and additional Industry Initiative within the WHD Scheme and that this should **not** be subject to any percentage cap of Industry Initiative spend on writing off debt.

In addition to such debt assistance schemes there is still a need for good debt recovery and forbearance practices from the energy companies. StepChange Debt Charity has evidence of a real need for a clear offer of breathing space for people in financial difficulties who are stepping up and taking responsibility for their debts. 33% of StepChange clients who sought help from their creditors before seeking debt advice said none of their utility providers helped them. Here we would point out that 60% of clients that we surveyed said that their financial situation stabilised once all of their creditors agreed to freeze further interest, charges and enforcement action. But

no clients said their financial situation had stabilised in cases where none of their creditors had agreed to give them this help¹⁰.

The principle is clear – if you engage with your energy company and seek help with your debts, the company should be clear it will suspend collection activities and accept affordable repayment offers. To work well, this offer of forbearance needs to be clear and visible.

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

In general this should ensure the Scheme is fully funded in 2016/17 and beyond. However, the Government should also consider contingency arrangements in the event of a macroeconomic shock.

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

Energy companies should not be able to count uncashed WHD vouchers for PPM customers as part of their obligation. PPM customers (around 7.2 million people in the UK) are often on the lowest incomes but paying more for their energy than higher-income earners on direct debit tariffs. One survey¹¹ of 334 people found that 77% of PPM households totally reliant on benefits, spent more than 10% of their income on energy in colder times. In winter, 67% needed to access the Emergency Credit facility, with single parents using Emergency Credit on average five times a week in colder weather. Many of those on PPMs are already in a precarious financial situation: 62% said they were struggling to repay debts of an average £3,840 per household.

Despite these issues, PPM can be an effective aid to budgeting for fuel costs and more should be done by energy suppliers to ensure all PPM customers benefit from their rebates, such as directly rebating customers rather than through voucher schemes, so that PPMs are used to help bring down energy bills. The Government should regulate to ensure energy companies do more to support PPM customers to take up their WHD rebate and so meet their obligations.

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

N/A

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

¹⁰ StepChange (2015) Safe Harbours: why we need an extended breathing space guarantee to help people in temporary financial difficulties recover from debt

¹¹ Stratford-upon-Avon Citizens advice Bureau (2013) Prepayment meters: left out in the cold

N/A

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

N/A

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

StepChange Debt Charity agrees that the participation threshold should be reduced. This would ensure that customers do not lose their entitlement to a rebate if they switch to providers who are currently not obligated to deliver WHD.

StepChange Debt Charity supports the proposal set out in the recent Cabinet Office consultation *Better use of data* that the Government share information for the purpose of providing assistance to citizens living in fuel poverty. We recommend the extension of data matching should be associated with an obligation on all energy suppliers to provide the WHD and an extension of the number of households supported (see costings provided in answer to question 3). Together with best practice debt recovery and forbearance practices by energy companies, this should ensure that the WHD Scheme is more effective at addressing the needs of those in fuel poverty.