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StepChange response to BEIS consultation *Warm Home Discount: Better targeted support from 2022*

August 2021

StepChange Debt Charity

Introduction

StepChange Debt Charity is the largest specialist debt advice charity operating across the UK. In 2020, over 500,000 people contacted us for advice and information on problem debt.

Last year, among those with responsibility for the bill, over a quarter of our clients (26%) were behind on their electricity bill and 23% were behind on gas, up from 17% and 13% respectively in 2019. This rise is, in part, linked to an increase in clients accessing advice through our telephony channel, who have historically been more likely to be in arrears on household bills. However, our research has shown the income shocks experienced by some households during the pandemic, along with the cost pressures associated with using increased energy in the home, has exacerbated affordability issues in the energy market.[1]

We welcome the Government's proposals to expand the Warm Homes Discount (WHD) scheme. The scheme provides essential support for households struggling to cover energy costs. We are pleased to see the increased ambition in the use of data sharing powers in the Digital Economy Act 2017 (DEA) to automatically enrol eligible consumers onto the scheme. We are also pleased to see the inclusion of smaller suppliers and a more holistic approach to the Industry Initiatives scheme – together these changes will help address some of the inconsistencies between suppliers which make switching risky for those who need support from the WHD scheme.

Our main concern with the proposals is that support will not be targeted effectively and is not generous enough to cover the shortfalls faced by households with low incomes. We would prefer to see support targeted at households whose household energy expenditure exceeds a certain proportion of disposable income as these are the households facing the most acute cost pressures on their budgets. We would also like to see the possibility of increased support where the WHD rebate does not cover the shortfalls identified in energy affordability in households with low incomes. Given the increases in wholesale energy costs it is vital that the WHD scheme responds to rising affordability pressures.

Improving the targeting of the scheme

1. Do you agree with the proposal to keep the eligibility for the current Core Group (Pension Credit Guarantee Credit recipients) unchanged, becoming Core Group 1?

We understand the need to target those over pension age for support with fuels bills given their increased risk of the health impacts of cold homes. However, the consultation document recognises the weakness of targeting in this group under current criteria, with only 28% of WHD recipients in this

[1] StepChange (2020), Tackling the coronavirus personal debt crisis

group meeting the fuel poor definition. This indicates the scheme is also designed to support households with low incomes (a criteria it is much clearer that Core Group 1 meets).

Targeting low income rather than fuel poverty raises harder questions about the targeting of support. Among StepChange advice clients, under 40s are over-represented compared to over 65s.[2] This reflects trends among households at risk of poverty. The economic impacts of Covid-19 have also been felt most keenly by younger demographics. Our research found that 38% of those aged 18-24 had experienced a fall in income since the start of the pandemic compared to just 10% of those over 65.[3]

This is not to say older demographics do not face affordability issues, particularly those in receipt of means-tested support. However, given the acknowledged weakness of targeting of this group we feel there could be scope for improvement. Basing awards on a real assessment of energy expenditure as a proportion of income would improve the targeting of the scheme overall.

2. Do you agree with the proposal to replace the Broader Group with a new Core Group 2 who receive the rebates automatically, rather than having to apply?

We agree with proposals to replace the Broader Group with a new Core Group 2. The current criteria are too restrictive and leaves millions of households at risk of fuel poverty ineligible for support. It is welcome therefore to see a significant expansion to the scheme.

In 2017, Ofgem estimated that six million households on a standard variable tariff had at least one member of the household in receipt of means tested benefits and an additional 2.2 million households needed but could not access the WHD scheme.[4] The government's own figures from 2019 found that around 3.2 million households are currently in fuel poverty in England.[5] These estimates suggest that, even with the broadened scope of the scheme, the proposals do not go far enough.

We welcome the fact that those who are eligible will receive the rebate automatically. The current scheme is hampered by the need for customers to apply for support, particularly for who struggle to engage with suppliers. Automatically enrolling people to the scheme will greatly improve its coverage and effectiveness.

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[2] Last year 45% of our clients were aged 25-39 despite representing only 25% of the UK population while 8% of clients were aged over 65 despite 31% of the UK population being of this age. More detail: StepChange stats yearbook 2020

[3] StepChange (2021), Stormy weather: The impact of the Covid-19 pandemic on financial difficulty in January 2021

[4] Ofgem (2017), Providing financial protection to more vulnerable customers

[5] BEIS (2021), Annual fuel poverty statistics in England

3. Do you agree with the proposed methodology to determine the Core Group 2 and the proposed eligibility criteria, which we estimate would increase the number of fuel poor households receiving the rebate from 47% under the Broader Group to 59% under the Core Group 2?

We welcome the fact that the new methodology will see an increase in the number of fuel poor households receiving the rebate. However, the scheme is still not targeted as effectively as it could be, and we are concerned that certain groups will miss out on support and that using property characteristics to identify households with high energy costs does not give an accurate picture of household energy expenditure.

The criteria include most of those on means-tested benefits who fall below the poverty line after housing and energy costs. However, nearly half of StepChange clients with energy arrears (48%) last year were not in receipt of means-tested benefits. We found a high degree of vulnerability in this group – 60% having an additional mental or physical vulnerability on top of their financial difficulty, compared to 50% of all clients. 32% of these clients were single adults with children and 40% lived in private rented accommodation – the overrepresentation of these demographics demonstrates how cost pressures like high housing costs can drive affordability issues even if someone is not eligible for means-tested benefits. 56% of those living in poverty in 2018 were in a household where at least one person had a job with 13% of workers in poverty last year.[6] We think some consideration should therefore be given to those who are in work but do not receive means tested benefits who face affordability issues with their energy bills.

StepChange research indicates that, among those who have fallen into arrears on household bills since the beginning of the pandemic, electricity is the second most common arrears (behind council tax) while gas was the fifth most commons arrears.[7] Alongside falls in income due to furlough and unemployment, the pandemic has also increased costs for households spending time indoors for longer periods, often with children out of school.

Among StepChange advice clients in 2020, there was a 9% year-on-year increase in those with electricity arrears and a 10% increase in those with gas arrears.[8] There were also significant increases in the average arrears these clients held: £223 and £138 more than in 2019 for electricity and gas respectively. This rise is linked, in part, to the increase in clients accessing advice through our telephony channel, who have historically been more likely to be in arrears on household bills. However, the proportion of clients falling behind has also steadily increased over the course of the pandemic across both telephony and online channels.[9]

While property characteristics will explain some of the higher costs faced by certain households, difficulty meeting energy bills has multiple drivers and assessing real energy expenditure would offer

[6] Joseph Rowntree Foundation, UK Poverty 2020/21: The leading independent report
[7] StepChange (2021), Stormy Weather
[8] StepChange (2021), Statistics Yearbook
[9] StepChange (2020), Tackling the coronavirus personal debt crisis

a more accurate way to identify and support those facing cost pressures. The fuel poverty definition used by the devolved nations offers a potential route to a better approach. Identifying fuel poverty based on the proportion of disposable income after housing costs spent on energy over a certain threshold would avoid missing those households who are in difficulty but not in receipt of benefits and those in apparently lower cost properties facing cost pressures.

We also note that in its recent review of affordability in the water sector, the Consumer Council for Water (CCW) found that social tariffs provided by water companies were not linked sufficiently to need and lacked the capacity to lift everyone out of water poverty. CCW recommended a single social tariff set at 5% of disposable income to prevent any households from spending more than this proportion of income on water.[10] In the long-term, a scheme designed along these longs has the potential to better address fuel poverty and would avoid the pitfalls of the proposed WHD eligibility criteria.

4. Do you agree with our approach that Government should work with energy suppliers and third-party organisations to ensure there is dedicated support for households with a disability at risk of fuel poverty as part of an Industry Initiative? Please give views on the design and administration of such an Initiative, including the amount of overall funding, the amount of funding available to households, and eligibility.

We agree with this proposal. We note the consultation text, but not this question, states that the intent is to provide support through the Industry Initiatives scheme for those with a 'significant health condition' as well as those with a disability. We agree that targeting those with serious health conditions is important to reach those who may have additional heating costs or vulnerabilities that increase the risk of difficulty heating their home.

The consultation does not make clear if it is envisaged that this group would also be eligible for wider Industry Initiative activities (if not otherwise eligible). We believe it is important that eligible criteria for energy advice, income advice and energy efficiency measures encompass this group so that this support reaches the customers it can most benefit.

[10] CCW (2021), Independent review of water affordability

Data matching and sweep-up

5. Do you agree with the proposed data-matching process, including the data-matching process with energy suppliers, to identify households eligible for the rebate under the Core Group 2 and provide rebates automatically on bills?

We welcome the data-matching proposals as we have advocated for more extensive use of the powers in the Digital Economy Act (DEA) to allow different parts of government to utilise available data to better target support.

We have concerns with the proposed method of identifying eligible households. Focussing on property characteristics misses other aspects of a household's energy use that could lead to high costs. While we recognise the technical challenges involved, we note the consultation recognises the relatively low accuracy of the proposed approach. There are many elements that can lead to a household having high costs beyond property characteristics. Households may use costly electric heaters as a way of rationing energy, households of multiple occupancy can have significant cost pressures that are not captured in property characteristics, and in some cases there are specific vulnerabilities or caring needs that mean a household's energy costs is increased. A simpler approach that would lead to more comprehensive coverage would be to target those spending a disproportionate amount of their income on energy.

The proposed approach has the potential to be opaque and will make it hard for advice providers to assess eligibility for the scheme. Despite the flaws with the current scheme, a positive aspect is that advisers can easily identify those who are eligible. Regardless of how the new scheme is designed, we would welcome data sharing and collaboration with debt advice providers so that advisers have the necessary information to assess eligibility for clients with energy arrears. For example, under the proposed design, we would welcome transparency on the details of the VOA data and regression model to assist advice providers to develop systems to check eligibility.

6. Do you agree with Government's proposed use of an imputation methodology to fill in missing data or non-matched data to enable rebates to be delivered automatically to a greater number of people?

As with the property characteristic criteria, we are concerned that the imputation methodology is opaque and may cause confusion for consumers and advice agencies advisers.

7. Do you agree with the proposed approach to setting a qualifying date?

We agree with setting the qualifying date as close as possible to when eligibility is identified. It's vital that this date is communicated with eligible consumers and that the same date is used every year to give people certainty about when they will receive their rebate.

8. Do you agree with the proposed sweep-up and high-energy-cost verification and challenge process?

The sweep up and challenge process seems fair overall. However, we would like to see the government using more than one communication channel to try and notify those who are able to challenge a decision. There should be efforts to contact via phone or email if these details are held, where possible household energy suppliers should also try and contact those that have an opportunity to challenge decisions.

9. Do you agree with the proposed permitted alternative data sources for proving eligibility for the rebate?

Based on the criteria being used to assess eligibility, the alternative data sources are adequate. However, they still do not give a true reflection of household energy costs. Households may have a high EPC rating but will still be facing high energy costs due to other pressures on their energy usage. We think a better approach would be to allow individuals to demonstrate the real cost of their energy use and details of the income and expenditure. This would give a true assessment of whether someone faces affordability challenges with their energy costs and requires support through the rebate.

Overall spending targets

10.Do you agree with the proposed overall spending targets for Great Britain?

If the scheme's ambition is to ensure all low-income households are able to adequately heat their homes, we believe the overall spending targets would need to be increased. The current value of the rebate does not cover the deficiency in energy usage in low-income households as published in the government's own analysis. Significant increases in wholesale energy costs will make deficiencies in the scheme more apparent.

We recognise constraints on WHD spending that flow from the way the scheme is funded from consumer payments, and the need to ensure WHD policy costs do not create a significant burden for low income and fuel debt vulnerable consumers just beyond the proposed Core Group thresholds. Therefore, we would urge the government to assess the package of policy measures aimed to tackle fuel poverty and ensure low income households can adequately heat their homes, and use the analysis of any outstanding affordability gap as part of its starting point for a strategy on long-term affordability.

11.Do you agree with the proposed approach to apportionment of the total spending targets to Scotland from April 2022, currently equivalent to around 9.4%? Warm Home Discount Better targeted support from 2022?

We agree with the apportionment of total spending to Scotland on a proportional basis. However, BEIS may need to consider whether any geographic or demographic characteristics of in Scotland would require adjustment to this proposal.

12.Do you agree with the proposal to make Industry Initiatives spending mandatory rather than optional?

As the consultation paper points out, Industry Initiatives is 'a well-established element of the scheme providing invaluable financial and non-financial support to households outside of the scheme's central rebates', so we welcome the proposal to make this mandatory rather than optional. As the proposed eligibility criteria for Core Group 2 seems likely to move some consumers into Industry Initiatives for support, making the spending mandatory is even more important. However, given the increased importance of Industry Initiatives in the revised WHD scheme as the source of support for some potentially vulnerable consumers (including some consumers with disabilities) we would ask BEIS to consider whether Industry Initiatives can safely be used as a buffer to absorb overspends in the Core groups, and if this may create difficult distributional trade-offs.

13.Do you agree with the proposed approach to use Industry Initiatives targets to balance the spending uncertainties created by the two Core Groups, through an adjustment before the start of the scheme year and a further, more limited adjustment in year, which are capped at £10 million from the Industry Initiatives' base spending obligation each scheme year?

Please see our response to question 12 above.

14. Do you agree that the value of the rebate should be set at £150 for the duration of the scheme and that payment of the rebate should be as per current rules?

StepChange Debt Charity welcomes the expansion of the WHD scheme spending envelope to deliver more help to people facing fuel poverty and fuel debt problems. The 2021 fuel poverty statistics show the average fuel poverty gap in England to be £216 in 2019. We note that Ofgem has recently announced significant increases in the energy price cap affecting 15 million households, so the increased WHD rebate would mainly cover the amount lost by some households in price cap inflation.

The experience of StepChange clients highlights affordability issues. Last year, the average electricity arrears owed by our clients was £1,002, while those with gas arrears owed an average of £703. So we agree that the size of the rebate will need to be increased to ensure households with low incomes are able to adequately heat their homes without falling into debt. However, we recognise that increasing the WHD rebate from the current £140 could have distributional consequences within the WHD spending envelope. The consultation paper proposes managing possible Core Group overspend by either changing the CG2 high energy cost threshold or reducing the spending on Industry Initiatives. We would urge BEIS to consider the possible trade-off between increasing the WHD rebate and maximising the number of people helped by CG2 support and Industry Initiatives over the life of the scheme.

15. Do you agree with the proposal to keep the scheme year as now, running from April to March?

We agree with running the scheme on the same timetable. It's vital that commencement dates are communicated with consumers and advice providers.

Industry Initiatives

16. Do you agree that spending on the provision of financial assistance with energy bills to households particularly at risk of fuel poverty should have a minimum spend of £5 million overall, with an overall cap of £10 million? If you think an alternative minimum and/or maximum spend should be set, please provide your reasons.

We agree that a proportion of Industry Initiatives funding should be dedicated to financial assistance but do not have evidence to inform the proposed parameters. It is important that financial assistance is well-targeted at those who are most vulnerable to harm arising from acute affordability issues and closely integrated with holistic support (such as energy advice, support to address energy debts and benefit checks) to address root causes and ensure this funding is used efficiently.

17.Do you agree that such financial assistance should continue to be capped per household per scheme year? If so, should this be capped at £150, or at a higher level?

We agree that financial assistance should continue to be funded. While we understand the argument that financial assistance cannot simply be another form of debt write-off, we would highlight the importance of debt write-off and affordable repayment solutions to prevent the need for emergency support. If suppliers do not effectively support customers struggling with energy arrears, a higher burden will inevitably be placed on emergency support through financial assistance.

Analysis of StepChange client data in 2018 demonstrated a close link between arrears and low income. StepChange clients spent, on average, 60% of their monthly income meeting household bills and buying food. However, those on the lowest incomes (under £10,000) spent on average 93% of their income on these costs. Small fluctuations in income can therefore mean missed bills. Writing off debt is essential in many cases to enable struggling households to cover ongoing usage. This assistance should be provided before self-disconnection, which can have damaging health impacts. Providing emergency assistance through Industry Initiatives after self-disconnection, or when households have already resorted to emergency credit, does not resolve affordability issues. Customers are often reluctant to take emergency credit and find it difficult to resume regular payments as a proportion of top-ups is committed to repaying the money owed. This consultation notes that most households generally use the rebate to cover emergency credit. Alongside holistic advice and support through Industry Initiatives, earlier intervention to clear arrears at moments when a household has experienced financial crisis or an income shock can prevent self-disconnection, further arrears and a reliance on emergency credit.

18. Do you agree that a £3 million portion of the energy debt write-off cap should be reserved for customers with pre-payment meters (PPMs) who are self-disconnecting or are at risk of self-disconnecting?

We agree that customers with PPMs are at greater risk of self-disconnection. However, many customers in financial difficulty ration energy, regardless of payment method, and we do not have the evidence to comment on whether ring-fencing this proportion of the available funding is the best way of reaching those who are most in need or more vulnerable.

Energy supplier licence conditions are clear that suppliers must consider how much customers can afford when arranging energy debt repayments.[11] This means PPM customers with energy debt should not be put in a position where they self-disconnect due to debt repayments. However, the way that debt is recovered through PPMs makes this almost inevitable. In many cases the customers affected are not aware that they can, or are not supported to reduce or pause unaffordable debt

[11] Electricity Supply Standard Licence Conditions, condition 27.8

repayments. We would like to see progress in improving supplier outreach and engagement with financially vulnerable customers, including PPM customers: it is important that write-off funding does not reinforce a view that customers not eligible for write-off should make repayments where those repayments are unaffordable.

More generally, we welcome the expanded scope of Industry Initiatives funding and this will help drive holistic support for more customers showing signs of difficulty at an earlier stage. However, other opportunities are being under-utilised. We note that there is no target to prioritise smart meter installation for customers with legacy PPMs (and who wish to have a smart meter installed) as part of the annual targets for smart meter installation. We would encourage BEIS and Ofgem to revisit this issue, ensuring that PPM customers are engaged and have adequate information to make informed decisions about smart meter installation, and are prioritised where they feel this is the right decision for them.

We also note the patchwork of financial support for those with energy arrears (including Industry Initiatives funding, trust funds and Fuel Direct) does not form a fully coherent system of support. Customers may not be aware of the help available and most support must be accessed from third party trusts. Problems with third party deductions within Universal Credit, such as poor communications and rigid repayment amounts, undermine Fuel Direct. More emphasis on early intervention and holistic support should be complemented by more coherent financial assistance for households struggling with arrears. We note proposals by NEA to reform and raise awareness of Fuel Direct and complement deductions from social security with full or matched repayments funded by government.[12]

19. Do you think that the cap on debt write-off should be reduced from £6 million to £5 million overall, and from which scheme year should this take place?

We do not agree and would urge caution against reducing write-off support for financially vulnerable customers at this time. We are unclear how the proposed cap relates to an assessment of the total level of arrears among customers, the impact of Covid-19 on arrears and how this funding interacts with trust schemes (and other charitable grants). We would urge caution against reducing financial support for vulnerable customers at this time. We would also argue that change in the write-off cap should respond to, not pre-empt expectations of more effective support from energy suppliers to avoid bad debt.

[12] National Energy Action (NEA) Budget submission 2021

20. Do you agree that the individual debt-write off cap should continue to be capped at £2,000? If you think an alternative cap should be set, for instance more in line with average energy debt levels, please provide your reasons.

We understand why £2,000 has been identified as an appropriate level to set the write-off cap but do not agree that this should be an absolute cap. We noted in our response to the 2020 WHD extension consultation that 93% of electricity and 94% gas arrears held by StepChange clients were below £2,000. We are also aware that advice services such as Christians Against Poverty that tend to serve a higher proportion of more vulnerable clients report that a higher proportion of their clients have energy arrears in excess of £2,000.[13] In fact, the most vulnerable customers are often those who have exceptional levels of arrears, for example because billing problems have been left unresolved for an extended period. We welcome greater efforts to prevent these situations from arising, but they are likely to continue to occur at least to some degree. Customers making token repayments with exceptional arrears (in which failings by energy suppliers are sometimes a factor) and little prospect of a change in their situation are among those who will most benefit from write-off. We remain of the view that amounts in excess of £2,000 may be appropriate in a small number of cases and believe suppliers should have flexibility to exceed the figure.

21. Do you agree that the installation of mains gas boilers to replace existing boilers that have ceased to function properly should only be permitted in households with a specific vulnerability to cold, as outlined?

We agree with the proposal to use a proportion of Industry Initiatives funding to provide support to replace failing boilers, which has the potential to reduce bills for significantly for households with low-efficiency boilers. This is likely to be particularly helpful for households experiencing or recovering from financial crisis who do not have the lump sum needed to replace a boiler. We do not have evidence to comment in detail on the proposed ‘vulnerability to cold’ targeting but agree the proposed criteria appear to be broadly appropriate.

22. Do you agree that boiler replacements should be limited to £8 million per scheme year from 2022/23?

While we do not have evidence to comment on the level of the cap, we agree that setting a cap is appropriate.

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[13] Christians Against Poverty (2020) Response to Warms Homes Discount Scheme 2021/22 consultation

Supplier participation

23.Do you agree that the obligation threshold for the whole scheme should be reduced from April 2022 to 50,000 domestic customer accounts? If not, what would you suggest is a more appropriate threshold and why?

We agree and have no further comment at this time.

24.Do you agree that from April 2023 the supplier threshold should be reduced to 1,000 domestic customer accounts?

We agree and have no further comment at this time.

25.Please provide evidence of costs of delivering Core Group rebates, your estimated costs of delivering to Core Group 2, and the costs of setting up Industry Initiatives (specifying if this is a multi-supplier scheme), in cost per pound of support delivered.

N/A

26.Do you agree with the proposed continuation of the arrangements for the reconciliation mechanism, extending to cover both Core Group 1 and Core Group 2, and that this should similarly continue in Scotland, in the event that the current WHD scheme continues in Scotland?

We have no comment at this time.

27. Do you agree that we should continue with the current Supplier of Last Resort (SoLR) arrangements and not introduce a mandatory requirement for an SoLR to take on the WHD obligations of a failing supplier? What alternative arrangements could be put in place that may encourage the SoLR to take on those obligations, including in relation to Industry Initiatives?

We are not well-placed to comment on the impact of creating an obligation on the willingness and capacity of a potential SoLR (and in turn on the value and service provided to customers of a failed supplier). However, we support efforts to ensure customers of failed suppliers benefit from the WHD scheme.

28. Do you agree with the proposal that Ofgem should assess and approve applications from suppliers seeking to participate voluntarily in the scheme?

We have no comment at this time.

29. Do you agree that from 2023 we introduce a second customer number reporting date?

We have no comment at this time.

Administration of the scheme

30. Do you agree that Ofgem should continue to act as the operator of the reconciliation mechanism for the scheme?

We agree and have no further comment at this time.

31. Do you agree that energy suppliers with multiple licences should be permitted to consolidate under one licence?

We have no comment at this time.