

# Citizens Advice Scotland response to the BEIS consultation on Warm Home Discount 2021/22

## November 2020

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### Who we are

Scotland's Citizens Advice network empowers people in every corner of Scotland through our local Bureaux, Helpline and Extra Help Unit by providing free, confidential and independent advice. We use people's real-life experiences to influence policy and drive positive change. We are on the side of people in Scotland who need help, and we change lives for the better.

### Summary

- CAS warmly welcomes a one-year extension to the Warm Home Discount (WHD) scheme. Many households rely on the winter rebate, as well as services delivered through Industry Initiatives, so securing the immediate future of the scheme was essential.
- As a result of the time pressures for securing a one-year extension to the scheme, CAS recognises the limitations of the proposals outlined. Instances where our position may have been different with a more favourable timescale are highlighted in our response.
- To have a meaningful impact, future changes to the scheme design must be complimented by an increase to the spending envelope.
- CAS welcomes a discussion around devolution and the recognition that fuel poverty targeting could potentially be done more effectively at a national level.

### Response to consultation questions

#### **1. Do you agree the size of the rebate should remain at £140 for 2021/22? If not, what size do you think the rebate should be, and why?**

Yes, CAS agrees that the rebate should remain at £140 for 2021/22. Making fundamental changes to the scheme, such as altering the value of the rebate, may not be achievable by April 2021 and would risk delays to the commencement of scheme year 11 (SY11). The consultation notes show that despite the introduction of price caps, average household energy spend has increased during the lifetime of the WHD scheme. The rebate

has not increased since 2014/15<sup>1</sup>, so CAS has called for at least an inflationary increase to the rebate to ensure that it continues to deliver value to consumers. However, as with many potential reforms, we recognise that there is a trade-off between the level of value to an individual recipient and the number of people the scheme is able to help.

## **2. Do you agree that the Core Group element of the Warm Home Discount scheme should continue unchanged for a one-year extension, to scheme year 2021/22?**

Recent research commissioned by CAS found that there was a high concentration of single pensioners (59.9%) amongst those who receive a WHD rebate but are not defined as being in fuel poverty, as per the new Scottish definition<sup>2</sup>. We would not encourage an approach which removes existing support from one group and gives it to another, however it may be the case that eligibility and need could be better matched in future iterations of the fund. For the purpose of this consultation, we agree that the Core Group element of the WHD scheme should remain unchanged for a one-year extension.

## **3. Do you agree that the Broader Group element of the Warm Home Discount scheme should continue unchanged for a one-year extension, to year 2021/22?**

The Broader Group has always been unique in that a household can actively apply for support from the scheme, be told that they have fulfilled the eligibility criteria, but still not receive a rebate. In a society where people are encouraged to raise their hand if they are struggling, this sort of system does not seem fair or reasonable. The extent of this problem was explored in our 2020 report<sup>3</sup> 'Mind the Fuel Poverty Gap' which found that, in 2018:

- 9.3% of Scottish households received a WHD rebate.
- 5.0% of these households belonged to the Broader Group.
- An estimated 29-32% of the population were eligible for WHD.
- Therefore, less than a third of eligible households received a rebate.

Part of Ofgem's eligibility for the Broader Group is designed to target households with a low income (below £16,190). With the COVID-19 pandemic resulting in suppressed household incomes and a record number of redundancies, we expect the number of households eligible for the Broader Group to increase for SY11, thus further exacerbating this gap between eligibility and rebates paid.

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<sup>1</sup> <https://commonslibrary.parliament.uk/research-briefings/sn05956/>

<sup>2</sup> CAS (2020): [Mind the Fuel Poverty Gap: Warm Home Discount in the Scottish context](#)

<sup>3</sup> *ibid*

The report also highlighted the significant variance of additional eligibility criteria adopted by suppliers participating in the Broader Group. This is confusing for consumers and several of those interviewed advised that they would not have been able to complete the application process without support from an advice organisation. In terms of compatibility with the new fuel poverty definition in Scotland, we found that the range of Broader Group criteria did not effectively identify the households most in need of support. This was most apparent when viewed in terms demographics:

- Of those defined as fuel poor but not WHD eligible, there was a high concentration of working age households.
- 34.5% were single working age and 33.5% were couple working age.
- Therefore, working age households accounted for more than two-thirds of those being missed by the Broader Group criteria.

Extending data-matching to the Broader Group is a potential solution<sup>4</sup>, but this would need to be complimented by an extension to the spending envelope in order to match the universal coverage of the Core Group. Standardising the criteria across all participating suppliers also seems logical, but this would need to reflect established indicators of fuel poverty, including the costs associated with living in rural areas, if it is to deliver better outcomes for Scottish consumers.

CAS believes that the immediate maintenance of the WHD scheme and the commencement of SY11 in April 2021 should be prioritised over other considerations at this time. Therefore, for the purposes of this consultation, we agree that the Broader Group should continue unchanged for the one-year extension.

**4. For energy suppliers only: how many of your Broader Group recipients were eligible under the mandatory criteria and how many under the additional criteria approved by Ofgem in scheme year 9? How many of your Broader Group recipients in scheme year 9 were also Broader Group recipients in scheme year 8 and scheme year 7? We have provided a template for this.**

Not applicable to CAS, but we welcome the recognition of our research in regard to these questions being posed to suppliers.

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<sup>4</sup> NEA and Fair By Design (2020): [Keeping Britain Warm and Well](#)

## **5. Do you agree that the cap on debt write-off should remain at £6 million for scheme year 2021/22?**

Yes, we agree that the cap on debt write-off should remain at £6 million for SY11. CAS recognises the importance of Industry Initiatives as the holistic support element of the WHD scheme<sup>5</sup> and it is important that sufficient funding is set aside for this. This is another example of trying to strike the best balance between competing interests when funding is limited.

## **6. Do you agree that there should be a cap on individual debt write-off at £2,000 for scheme year 2021/22? If not, provide evidence for alternative levels.**

25% of Scottish households are in fuel poverty and recent Scottish Government projections have shown that this could rise as high as 29% as a result of the COVID-19 pandemic<sup>6</sup>. CAS expects energy debt to be a major issue this winter, with non-repaid debt holidays and the recommencement of debt-recovery being a worrying combination of factors. However, with ability to pay principles now being enshrined in the licence code<sup>7</sup>, the industry's approach to debt should move more measured moving forward.

Evidence from our network suggests that there is a psychological benefit to clients where a debt is written-off as opposed to it only being partially reduced. A write-off means that debt repayments immediately cease, which can also resolve the associated worries and stress. Partial write-offs are beneficial to clients in the longer-term as the debt is reduced, but debt repayments continue, and the client often sees no immediate change in their circumstances. CAB advisers in Scotland have made this point when arguing in favour of full write-offs from supplier hardship funds.

As regards a £2,000 limit for SY11, CAS suggests that a compromise may be required. The limit ensures support for more households in need, but we believe that there are circumstances where an individual write-off in excess of £2,000 may be required. In such instances, suppliers could voluntarily write-off any balance over the £2,000 threshold, or an exemption system could be considered where applications for write-off in excess of the cap are passed to Ofgem for authorisation. Monitoring will also be required to ensure that the funding is not being used by suppliers to write-off historic debts or similar bad practices, as alluded to in the consultation notes.

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<sup>5</sup> CAS receives Industry Initiatives funding for projects such as Energy Best Deal (EBD). From September 2019 to March 2020, 4,061 clients were supported through EBD, whilst an additional 1,412 attended 198 group sessions.

<sup>6</sup> Scottish Government (2020): [Experimental analysis on the impact of COVID-19 on Fuel Poverty Rates](#)

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/self-disconnection-and-self-rationing-decision>

## **7. Do you agree that the restriction on providing financial assistance to Core Group and Broader Group recipients should be removed?**

CAS strongly supports removing the restriction on providing financial assistance to Core Group and Broader Group recipients; this was one of the key recommendations of our 'Mind the Fuel Poverty Gap' report<sup>8</sup>. CAS supported extending the scope of Industry Initiatives to include funding for fuel vouchers, however, we were concerned to learn that consumers were being asked to sign a waiver before a voucher would be issued, to confirm they have not received, or do not intend to apply for, a WHD rebate within the same scheme year. Consumers should not be asked to choose between receiving support in a crisis situation or the prospect of rebate in the longer-term. We maintain that this is inconsistent with the spirit of the WHD scheme and should be removed.

## **8. Do you agree that the £5 million cap for financial assistance (12.5% overall industry initiative spend) should be maintained for the scheme year 2021/22?**

CAS is satisfied with a £5 million cap for financial assistance in 2021/22. We understand that only a fraction of this amount was spent in the last reported year (SY8)<sup>9</sup>.

## **9. Should Government keep the financial assistance eligibility criterion of customers living in communities wholly or mainly in fuel poverty? If not, please provide reasons.**

Being off-supply, or facing an immediate threat of self-disconnection, tends to be the criteria for financial assistance for prepayment households. Given the transient nature of fuel poverty, it could be argued that any household in these circumstances that is appealing for assistance, is, in that moment, fuel poor. Regardless, there needs to be a distinction between fuel poverty and crisis intervention when considering support for prepayment households. CAS believes it would be wrong to turn someone away in a crisis situation because they did not fulfil certain fuel poverty criteria.

Assessing a client for fuel poverty eligibility at their point of need is also logistically problematic. This is particularly true in Scotland, where the fuel poverty definition is multi-faceted and there is, as yet, no tool to assess fuel poverty.

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<sup>8</sup> CAS (2020): [Mind the Fuel Poverty Gap: Warm Home Discount in the Scottish context](#)

<sup>9</sup> Ofgem (2019): [Warm Home Discount Annual Report: Scheme Year 8](#)

**10. Do you agree that, in addition to energy advice, advice about the benefits of smart meters should be provided, so far as is reasonably practicable, to every customer benefiting from an Industry Initiative?**

Yes, CAS supports the proposal to provide smart meter advice to every customer benefiting from an Industry Initiative. Achieving net zero will require buy-in from communities and improving literacy around technologies and future energy systems will be an important part of this. Standardisation of the core advice across all Industry initiatives, and guidance on how this should be delivered, will ensure best practice.

It is important to note that scepticism about smart meters remains prevalent amongst many consumers, but advisers should be respectful when they encounter resistance. A “hard-sell” approach on the benefits of smart meters and the need to have one is likely to do more harm than good in such circumstances. Also, the smart meter rollout is yet to reach many areas (e.g. the North of Scotland) so advice here should be tailored accordingly.

**11. Do you agree that businesses installing and repairing boilers and central heating systems under the WHD Industry Initiatives should be TrustMark registered from 1 April 2021? Please provide reasons for this answer.**

CAS agrees that installers working on Industry Initiative funded programmes should be subject to a recognised accreditation. This should help to ensure that minimum standards are met in terms of quality of work, standards of customer service, and routes to redress if things go wrong. In 2020, CAS published ‘Fit for the Future’ which explored these themes in relation to the retrofit market<sup>10</sup>.

**12. Do you agree that the installations of boilers, in high risk properties and central heating in all homes, should be installed in accordance with PAS 2030: 2019 and PAS 2035: 2019 from 1 April 2021? Please provide reasons for your answer.**

Yes, we agree. Following these standards should help avoid unintended adverse consequences from the installation of measures, particularly in properties where there are more complex issues.

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<sup>10</sup> CAS (2020): [Fit for the Future](#)

**13. Do you agree with the introduction of technical monitoring for boilers and central heating systems installed or repaired under the WHD from 1 April 2021? Please provide reasons for your answer.**

Not answered.

**14. Do you agree that the supplier participation thresholds should remain unchanged for scheme year 2021/22?**

Yes, we agree that the supplier participation thresholds should remain unchanged for SY11. Data-matching has made scheme administration simpler for suppliers, so there is an argument for removing the threshold for participation in the Core Group. However, any change that would risk commencement in April 2021 should be avoided, so this should only be considered for a future design of the scheme if that is the case.

As of April 2020, the market share of WHD participants was estimated to have exceeded 98%<sup>11</sup>. Closing the remaining gap and achieving full coverage feels like a reasonable next step for the scheme beyond SY11. This would have two benefits. First, it would remove the barrier to switching which is a commonly cited concern of rebate recipients. Second, it would end the anomaly whereby consumers with non-participating suppliers do not pay towards the WHD pot, whilst eligible consumers in the Broader Group do - but are not guaranteed to receive a payment.

**Citizen Alert:** An erroneous transfer caused the client to miss out on the Warm Home Discount. The client is on a low income, she has mental health issues and £140 would have gone a long way towards heating her home at the start of the year. Client informed us that she has now been switched back to her original supplier. The meter has been switched back to prepayment mode and she is able to top-up as before. The client is happy with this as she finds PPM most convenient for her to use and afford. I made the client aware that she could come back to the CAB if she has any concerns. I made the client aware of the standing charge and the importance of regularly topping up even if she isn't using her gas supply. I offered assistance with the Warm Home Discount application process for next year. Her supplier is very hard to get hold of on the phone and their online process usually goes offline. We discussed switching and advised that the CAB could check the client meets a new supplier's Warm Home Discount criteria and that her unit prices are cheaper than what she is currently paying.

<sup>11</sup> <https://www.cornwall-insight.com/publications/chart-of-the-week/chart-of-the-week/2020/whd-and-eco-thresholds-now-cover-98-of-market>

**15. Can you provide evidence of the administrative costs of delivering the Warm Home Discount rebate and the Industry Initiatives scheme? We have provided a template for this.**

Not answered.

**16. Do you agree with the requirement for the failing energy supplier to report on their paid and unpaid Core Group and Broader Group customers and Industry Initiative spending incurred? If not, please explain your reasons. We welcome views on potential alternative arrangements.**

Yes, we support this requirement in order to improve the Supplier of Last Resort (SoLR) process. Ofgem's Supplier Licencing Review has proposed that suppliers create customer continuity plans, for use in the event of failure, which details how information be transferred to the appointed SoLR<sup>12</sup>. This requirement should include WHD data to minimise any disruption to fulfilling responsibilities under their scheme obligation.

It is common for customers of failed suppliers to experience significant detriment, so it is important that the SoLR process provides certainty and fairness to those involved. Longer-term, we would like to see the SoLR process mandating that customers of a failed WHD participant do not miss out on their rebate. It would not be fair if customers were financially disadvantaged by circumstances outwith their control.

**17. Do you agree that an SoLR and WHD participant who volunteers to pay non-core obligations of a failing WHD participant should be allowed 10% non-core overspend? If not, why not? If you think a different % should be applied, please explain your rationale.**

CAS is satisfied that a SoLR and WHD participant should be afforded the flexibility of a non-core overspend for the one-year extension, but we do not have evidence which would allow us to take a view on what would constitute an acceptable overspend.

**18. Do you agree with removing the second reconciliation?**

Not answered.

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<sup>12</sup> <https://www.ofgem.gov.uk/publications-and-updates/supplier-licencing-review-ongoing-requirements-and-exit-arrangements>



**19. Do you agree with the proposal to carry forward voluntary and compulsory smaller suppliers' undelivered rebates and add the value of these rebates to their non-core obligation for the scheme year when they become fully obligated? Please provide reasons for your answer.**

Yes, we agree that this proposal will protect customer rebates as participating suppliers move towards full obligation status.

**20. How might changes to scheme design result in costs to suppliers, for example if eligibility were different in different national schemes, and how could these impacts be prevented or mitigated?**

CAS has argued that there is a misalignment between the existing WHD criteria and the new fuel poverty definition in Scotland, particularly in terms of targeting support to certain demographics<sup>13</sup>. Eligibility criteria which better reflects established indicators of fuel poverty such as the costs associated with living in rural, off-gas areas, would result in better outcomes for Scottish consumers. We therefore welcome the commitment from BEIS to work with the devolved administrations to design the future of the WHD scheme in a way that improves fuel poverty targeting.

In Scotland, fuel poverty reporting is conducted at a national level and includes a local authority analysis, so it stands to reason that targeting could be enhanced by moving the scheme design closer to this model. However, CAS is aware of concerns that the impact of such a change could be limited when not accompanied with greater control over how the levy is raised, and particularly if scheme funding levels remain static.

The accompanying impact assessment to this consultation has demonstrated that scheme administration costs are not overly burdensome for suppliers. However, any change which would result in further costs being passed onto customer bills must be avoided. Extending data-matching to those in the Broader Group could off-set any increased administrative costs incurred by suppliers in adopting different eligibility criteria in separate national schemes, but an extension to the spending envelope would be required to ensure full coverage.

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<sup>13</sup> CAS (2020): [Mind the Fuel Poverty Gap: Warm Home Discount in the Scottish context](#)

**21. Should supplier thresholds for separate schemes be the same in England and Wales and Scotland? Please provide your reasons.**

In a supplier-delivery model there is an assumption that suppliers make effective use of the unique insight they have into their customers' needs. If we accept this to be a largely accurate assumption, there may be some benefit in aligning thresholds with supplier customer bases nationally. However, these benefits would need to be measured against any potential risks, such as increased administrative costs or barriers to market entry for suppliers. Again, any reform which results in further costs being passed onto customer bills must be avoided.