



FAIR BY DESIGN

Ending the extra costs of being poor



Action for Warm Homes

KEEPING BRITAIN WARM AND WELL

How to help millions of people
pay a fair price for their energy

ABOUT US

About National Energy Action (NEA)

NEA works across England, Wales and Northern Ireland to ensure that everyone in the UK can afford to live in a warm, healthy home. NEA also provides the secretariat for the All-Party Parliamentary Fuel Poverty & Energy Efficiency Group (FPEEG) to raise awareness of fuel poverty and stimulate cross-party debate about the need to make energy costs more affordable.

Fair By Design

Fair By Design (FBD) is a movement dedicated to reshaping essential services, like energy, credit and insurance, so they don't cost more if you're poor. Our Venture Fund provides capital to help grow new and scalable ventures to innovate the market. The Fair By Design Campaign launched in September 2018. We were established by Barrow Cadbury Trust, Big Society Capital, Comic Relief, Joseph Rowntree Foundation, the National Lottery Communities Fund, Social Tech Trust, and the Tudor Trust. The FBD Campaign is managed by Barrow Cadbury Trust on their behalf.

SUMMARY

The Warm Home Discount (WHD) scheme currently provides a payment of £140 (inclusive of VAT) towards energy bills, and also contains provisions to carry out projects to help low-income and vulnerable households to better afford their energy bill. The scheme was introduced by the Government in April 2011 and is an obligation on energy suppliers funded through bills.

But the continuation of the scheme is in doubt.

Formally, the Warm Home Discount (WHD) scheme will end after March 2021. We are calling for an extension and expansion of the scheme after that date to ensure all eligible low income working age households receive the rebate automatically without needing to apply each year to their supplier.

Every year many poorer customers miss out on the Warm Home Discount scheme because:

- Not all suppliers have to offer it
- It is poorly advertised which means many are unaware of its existence
- The UK Government has not yet made the most of data-sharing powers which would help low income working households benefit from the scheme without needing to apply to their supplier each year
- Their applications could be unsuccessful because there is only a finite amount of money available for the limited annual budget.

We are calling specifically for the following:

- The UK Government to extend and expand the Warm Home Discount (WHD) scheme for at least three years
- The UK Government to ensure current low income pensioners continue to receive WHD rebates and ensure the extended and expanded scheme uses data matching powers to guarantee all eligible low income working age households receive the rebate automatically
- The UK Government to ensure smaller suppliers are also required to provide all elements of the WHD
- Ofgem to ensure the WHD is better designed i.e. ensure that more customers know about it and there are more channels to apply for it via Industry Initiatives
- For all energy suppliers to implement the new WHD policy before the start of the new phase of the scheme in April 2021, and regularly liaise with customers to see whether the WHD is meeting their needs
- For those suppliers to continue making sure consumers have access to hardship grants, and energy/fuel debt advice.

A PREVENTABLE COLD HOME CRISIS

Each winter at least **11,400 people in the UK die due to a cold home**¹. During the “Beast from the East” in winter 2017/18, this figure exceeded 17,000 who died because they were unable to keep warm². These needless deaths are sadly just the ‘tip of the iceberg’ and many more people are suffering with poor physical and mental health due to inadequately heated homes.

The resulting impact on health services is acute; **costing the NHS between £1.4bn and £2bn every year**, in England alone³.

In too many homes people have to choose to eat or heat. People across the UK are adopting desperate coping tactics simply to keep warm.

TEN COMMON COPING STRATEGIES BY THOSE AFFECTED BY FUEL POVERTY



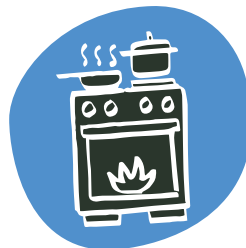
Going to bed early to stay warm



Spending the day in heated spaces such as a library, cafe or even A&E



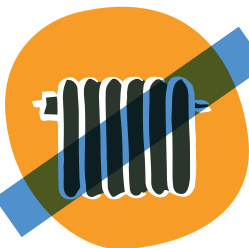
Not inviting friends or family to the home



Using unsafe, unserviced heating appliances or inappropriate devices like ovens to stay warm



Cutting back on buying essential personal items, food, eating only cold meals or reliance on food banks



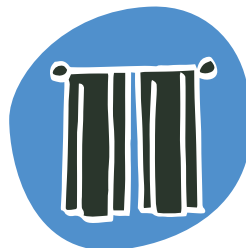
Only heating one room or avoiding using central heating at all



Cooking using alternative sources such as a barbeque or portable stove



Cutting back on electricity and using candles instead of lights



Leaving curtains closed all day or putting newspaper over windows



Formal or informal borrowing from friends and family

THE POOR ACTUALLY PAY MORE

The irony is that people on the lowest incomes pay more for their energy⁴. This is called the poverty premium. Whilst the causes vary, people on low incomes often pay more because they:

- have a pre-payment meter;
- are in accommodation where they are unaware of their rights to change supplier;
- pay standing charges for months when not using any energy;
- are more likely to lack access to the internet so can't access the best deals; or
- simply struggle to find a cheaper tariff.⁵

In England, more than 10% of households live below the poverty line⁶ but have higher than average energy costs and on average are spending an additional £320 per year on keeping warm (compared to those not living in fuel poverty⁷). For those who live in the least efficient homes, the impact is even greater with some households spending £2000-£2800 keeping warm and well⁸.

People we spoke to described the impossible choices some families face:

"In the winter when I need to put more [heating] on then I do find it difficult to keep up with the other bills, if I want to, you know, eat and keep warm"

"I'm having to put a duvet over just to keep warm every week so I can pay the bills that need paying first."

"I'm always struggling. I have done for the last 10 years. I'm always struggling with my bills."

"That's an on-going thing, we're always struggling to pay the bills, you know. But I do pay them."

"Basically, I didn't really buy any clothing for myself, I was having to make do and mend with a lot of my clothing. It was cutting back on stuff as well for the girls and, again, they had to wear things right to the very bone, and it was just basically trying to live, not within my means, but well below my means, just to ensure that I'd got enough money so that I could top-up the meter".

We believe everybody should pay a fair price for their energy and should be able to keep warm and well in their homes.

HOW CAN WE HELP PEOPLE BECOME WARM AND WELL IN THEIR HOMES?

There are three main ways to help address this preventable crisis:

1. reduce energy prices
2. maximise people's incomes; and
3. improve the efficiency of homes

Whilst they are all important, this briefing focuses on the first solution. In particular, we are calling for the extension and expansion of the Warm Home Discount (WHD): a policy which already entitles the poorest pensioners to an **automatic reduction of £140 from their energy bills** each winter.

That scheme is **due to end after 2021**, despite providing a lifeline for millions.

We are also calling for suppliers to make information on the WHD much more accessible. Ofgem should develop guidance for how firms can do this. We suggest using an 'inclusive design' approach⁹; the principle of designing products, services, and support schemes around a broad range of consumer needs, including those with additional needs or at risk of experiencing vulnerable circumstances.

Industry Initiatives: Energy suppliers that offer the WHD scheme deliver support to people living in fuel poverty or a fuel poverty risk group. Those suppliers can choose to deliver some of this support through Industry Initiatives, which is usually in partnership with other third party organisations (such as charities). The support offered can include help assist customers with their energy bills or energy usage.

WHAT IS THE WHD AND WHAT SUPPORT DOES IT CURRENTLY PROVIDE?

The Warm Home Discount Scheme (WHDS) provides a payment of £140 (inclusive of VAT) towards energy bills. The scheme was introduced by the Government in April 2011 and is managed by energy suppliers.

There are two ways to qualify for the Warm Home Discount Scheme: **low income pensioners who receive the Guaranteed Credit element of Pension Credit receive the payment automatically** and don't need to apply to their supplier. This is done using data-matching between energy suppliers and central government. This group is known as the 'core group'.

Other low income working age households can also access the scheme but they are required to meet their energy supplier's criteria, based on means-tested benefits. The application process also differs depending on the supplier. This group of recipients is known as the 'broader group'.

Finally, another element of the scheme allows **suppliers to help fuel-poor customers through third parties**: this is known as the 'Industry Initiatives'. This support depends on the supplier's terms and conditions, and choice of third party provider. That provider might also offer advice on energy saving, and help with reducing energy debts.

The UK government co-ordinates the Core Group, the energy regulator, Ofgem, administers the Broader Group and Industry Initiatives.

Whilst the WHD provides vital support, there are problems with the current scheme:

- Despite legislative powers which allow the Government and suppliers to provide this support automatically, and despite being eligible for support and paying for the cost of the policy through their energy bills, 'broader group' customers have to apply to their supplier for assistance. This means **as many as two million customers can miss out on this support each year** either because they are unaware of this programme or because their applications are unsuccessful as there is only a finite amount of money available for the limited annual budget¹⁰.
- Some smaller suppliers are not required to provide the WHD, and these suppliers are not required to specify in their own publicity or on price comparison websites that they do not provide it. This means that **if customers, particularly those in the 'core group', switch suppliers to benefit from a cheaper deal, they may lose their entitlement to the £140 rebate**. This can result in these customers being worse off.
- The support provided by the Industry Initiatives element of the scheme is limited due to the small size and scale of the programme and the number of initiatives it funds.

The WHD as it currently operates remains arbitrarily inaccessible to many low income customers who face a shortfall between their incomes and the essential cost of living¹¹. They miss out on support despite contributing to the cost of the policy through their energy bills.

Our proposals would ensure that these issues are addressed, and that the scheme can play an even more vital role supporting those that most need this support.

HOW TO EXTEND AND EXPAND THE WARM HOME DISCOUNT

The UK Government, Ofgem, parliamentarians and energy companies must work together in 2020 to ensure that the scheme continues and expands after April 2021 to become more fair. Through legislation, consultation, or business guidance we call for:

UK Government:

- to ensure current low income pensioners continue to receive critical support and do not see a reduction in the value of their rebates.
- to ensure an extended and expanded scheme makes the most of current data matching powers so that all eligible low income working age households receive the rebate automatically and do not have to apply to their supplier each year.
- increase funding and support for the Industry Initiatives component of the scheme to provide further assistance across Great Britain for hardship grants, energy and fuel debt advice, and wider vital services.
- to ensure all licenced suppliers (not just those with more than 250,000 customers) are required to provide all elements of the WHD obligation so they can offer this support.
- to ensure that the scheme administrator gives greater clarity on which activities can be funded by the Industry Initiatives portion of the scheme.
- to ensure that as well as the WHD, the current statutory energy efficiency commitments¹² contained within the 'Fuel Poverty Strategy for England' are met¹³.

Ofgem:

- alongside existing price protections¹⁴, to enforce the above changes to the WHD scheme.
- to ensure the WHD is better designed i.e. ensure that more customers know about it and there are more channels to apply for it next winter via Industry Initiatives before data matching can start in 2021/22.
- to evaluate the benefits of the WHD, in particular the value of Industry Initiatives such as the number of beneficiaries, the cumulative impact of support provided and whether the services provided are giving value for money compared to switching supplier or direct yearly WHD rebates.
- to ensure all licenced suppliers deliver all elements of their WHD obligation.

Parliament

- to get a commitment from the UK Government that the WHD will be extended and expanded.
- to ensure there is sufficient Parliamentary time for the secondary legislation required to be introduced and carried through.
- to scrutinise the legislative proposals and ensure the suggestions put forward by this paper are implemented.
- to ensure the regulations are approved in both the Lords and the Commons without delay.

Businesses

- to implement the new WHD policy before the start of the new phase of the scheme in April 2021.
- to explain the support that is available via the WHD and other assistance such as the Energy Company Obligation and the Priority Services Register in a consistent and accessible manner.
- to ensure smaller suppliers, now obliged to offer the WHD, know how to deliver all elements of their new WHD obligations to their customers.
- to regularly consult with customers to see whether the WHD is meeting their needs.

WHAT SUCCESS WILL LOOK LIKE

- the WHD scheme is legislated for post-2021 for at least three years, giving assurance to low income pensioners and low income working age households that this vital support will be maintained and expanded.
- by using current powers within the Digital Economy Act ensure at least an extra 0.6 million, and possibly more than 1.5 million households, who are in full or part-time work but can't currently afford basic essentials, will be eligible to receive WHD. Households must not miss out on this support each year either because they are unaware of it or because they fail in their applications due to the limited annual WHD budget.
- current low income pensioner recipients continue to receive this critical support and do not see a reduction of the value in their rebates so they are at less risk of dying prematurely.
- UK organisations across the board continue to make sure consumers have access to hardship grants, and energy/fuel debt advice.

If implemented our proposals will mean millions more people across Great Britain pay a fairer price for their energy and are more able to keep warm and well in their home. As well as directly improving their lives, these actions will help reduce stress on and costs to the NHS, especially over winter, and deliver a fairer transition to a net zero carbon society¹⁵.

Further details, including costings and how our recommendations can be achieved, are found in an accompanying briefing document found here: <http://bit.ly/FBDWHD>

SOURCES

1. Over the last five years, there have been an average of 35,562 excess winter deaths each year. NEA estimates that approximately 30% of these are attributable to the impact cold homes have on those with respiratory and cardio-vascular diseases and the impact cold has on increasing trips and falls and in a small number of cases, direct hyperthermia. This is in line with estimates made by the World Health Organisation (WHO) - http://www.euro.who.int/__data/assets/pdf_file/0003/142077/e95004.pdf.
2. In 2017/18, excess winter deaths exceeded 50,000 across the UK, and NEA estimates that 17,000 people died because they were unable to keep warm enough at a reasonable cost.
3. In 2016 Building Research Establishment (BRE) released its revised Cost of Poor Housing (COPH) report, which estimated the cost of poor housing to the NHS based on Environment, Health and Safety (EHS) and NHS treatment costs from 2011 and includes treatment and care costs beyond the first year. It also includes additional societal costs including the impact on educational and employment attainment. Finally, it provides information in terms of QALYs (Quality adjusted life years) as well as cost benefits, and to compare with other health impacts. The report estimates that the overall cost of poor housing is £2bn, with up to 40% of the total cost to society of treating Housing, Health and Safety Rating System (HHSRS) Category 1 hazards falling on the NHS. Overall, the cost to the NHS from injuries and illness directly attributed to sub-standard homes was estimated at £1.4 billion, and the total costs to society as £18.6 billion. Research by the BRE in 2013 suggested that if all of the English housing stock with a Standard Assessment Procedure (SAP) below the historic average of 41 was to be brought up to at least the current average of 51 through heating and insulation improvements, the health cost-benefit to the NHS would be some £750 million per annum. Other estimates put the costs to the NHS of energy inefficient housing at £192 million (£35 million of which was in the Private Rented Sector). Use of the BRE category 1 calculator put the estimated Private Rented Sector costs to the NHS at between £37 and £674 million depending on SAP rating and occupancy level.
4. National Energy Action: Bridging the Gap: Addressing the cost of living facing UK households this winter (2017) <https://www.nea.org.uk/wp-content/uploads/2017/11/Bridging-the-Gap-NEA.pdf> "The poorest households face a fuel poverty premium relative to higher income earners to achieve the same outcome: a warm home. Low-income households spend six % more of their total household expenditure on energy, are more likely to be on poor value-for-money tariffs paying an excess of up to £300 per year and can be locked into higher fuel costs living in energy inefficient homes." (p.3)
5. Bristol University: Paying to be poor: Uncovering the scale and nature of the poverty premium. <http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf>
6. The net disposable income after housing costs of a low-income household is £248 per week (£12,933 per year), equating to 60% of the UK median of £413 per week. The income after housing costs of a fuel poor household is even lower: £10,118 per year, equating to a net disposable weekly income of £194. Investigating income deciles shows the poorest 10% of UK society have a gross average weekly household income of £130 (£6,760 per year). Fuel poor households overwhelmingly comprise the poorest fifth of society: 85% of households in fuel poverty in England are located in the first and second income deciles and 78% of English households in those two deciles are fuel poor.
7. Under the English definition of fuel poverty a household is fuel poor if: the amount they would need to spend to keep their home at "an adequate standard of warmth" is above the national median level and if they spent that amount, their leftover income would be below the official poverty line. In other words, under the English definition of fuel poverty, a household is fuel-poor if their income is below the poverty line (taking into account their energy costs); and their energy costs are higher than is typical for their household type. This reduced the amount of households in fuel poverty in England by over 1 million households and shifted the distribution of fuel poverty. Over 45% of all fuel poor households in England are in full or part-time work.
8. Annual Fuel Poverty Statistics Report, 2019 (2017 data), BEIS 2019, page 11.
9. <https://fairbydesign.com/news/inclusive-design-in-essential-services/>
10. Ofgem estimates that 2.2m customers are eligible for the warm home discount but do not receive it (https://www.ofgem.gov.uk/system/files/docs/2017/12/providing_financial_protection_to_more_vulnerable_consumers_0.pdf) This was verified by BEIS in their consultation on data matching (<https://www.gov.uk/government/consultations/data-sharing-regulations-for-a-safeguard-energy-tariff>)
11. The scale of this challenge is stark, 47% of all fuel poor households in England are in full or part-time work and to meet the essential cost of living, NEA estimates that some families in fuel poverty face an income shortfall of up to £9,331 per year (£778 per month) to cover basic essentials, including energy. See National Energy Action: Bridging the Gap: Addressing the cost of living facing UK households this winter (2017) <https://www.nea.org.uk/wp-content/uploads/2017/11/Bridging-the-Gap-NEA.pdf>
12. This requires all fuel poor homes to benefit from energy efficiency improvements by 2030 to reach the standard of a modern home built today, supported by interim milestones.
13. As well as WHD, the Department for Business, Energy and Industrial Strategy (BEIS) also urgently needs to follow through with key commitments surrounding domestic energy efficiency made in the Conservative Party manifesto to invest £2.5bn in a new Home Upgrade Grant Scheme (HUGs) in fuel poor homes and wider commitments made in the 2018 Clean Growth Strategy, including an extension of the Energy Company Obligation (ECO) until 2028 at the current level of ECO funding, developing a long term trajectory to improve the energy performance standards of privately rented homes, with the aim of upgrading as many as possible to EPC Band C by 2030 where practical, cost-effective and affordable, and how social housing can meet similar standards over this period.
14. The Pre-Payment Cap and the Default Tariff Cap also provides relief from unpredictable price increases, greater transparency in the pass through of energy related policy costs, and the prospect that bills could fall if input costs drop. For the majority of customers who don't (or can't) engage in the market, this continues to be a positive development, despite the recent rises that were announced on February 7, 2020 (<https://www.theguardian.com/business/2019/feb/07/energy-bills-to-rise-by-more-than-100-pounds-for-15m-households-as-price-cap-lifted>)
15. <https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law>



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Fair By Design is delivered by
The Barrow Cadbury Trust on
behalf of a group of foundations.

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Action for Warm Homes

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