



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

KEEPING BRITAIN WARM AND WELL: OPTIONS TO DELIVER AUTOMATIC WARM HOME DISCOUNT REBATES FOR WORKING FAMILIES

This analysis assesses the options for expanding the WHD, in particular the cost impact of extending the WHD rebate to all households eligible in the Broader Group and retaining Industry Initiatives.

Providing automatic rebates for low income working families and extending Industry Initiatives would require the current envelope of the programme to be expanded. Our analysis suggests these reforms could be achieved at no cost to the Treasury by leveraging the savings made by the Department for Business, Energy and Industrial Strategy's (BEIS) Smart Systems and Flexibility Plan¹ or in a cost-neutral way by reconfiguring how current Winter Fuel Payment² or Cold Weather Payments³ work.

Unless otherwise stated, the source for figures used in this analysis is BEIS's Impact Assessment for extending the WHD to 2018-19⁴. It should be noted that this cost analysis is indicative only⁵.

The Digital Economy Act⁶ enables suppliers to work with government to provide the Warm Home Discount (WHD) automatically to low income working households. We believe that it is critical the WHD is amended to enable these new powers to automatically provide support to eligible low income working households and that the programme is extended past its current end date of April 2021.

Using the existing powers within the Digital Economy Act would help at least an extra 0.6 million, and possibly more than 1.5 million more households who are in full or part-time work but can't currently afford basic essentials. Although eligible to receive WHD, they 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 budget.

The low income working households who currently miss out, face serious shortfalls between their incomes and the essential cost of living and miss out on support despite paying for the cost of the provision through their energy bills.

As well as expanding vital energy rebates, there is also an urgent need to provide certainty over the future of the 'Industry Initiatives' component of the scheme. Without it, a wide range of organisations will not be able to maintain grants, fuel debt advice, and other services.

Providing automatic rebates for low income working families and extending Industry Initiatives would require the current remit of the programme to be expanded to ensure current low income pensioner recipients do not see a reduction in the value of the rebate.

Further details are contained in this report alongside a summary of the likely effectiveness and value for money, revenue implications for the Exchequer, macroeconomic implications (for economic stability and growth), distributional impacts and administrative and compliance costs.

<p>Likely effectiveness and value for money</p>	<p>The WHD is an existing programme. The delivery of rebates to the 'core group' using data sharing powers has been considered a great success and key innovation within the UK Government. It removes the need for vulnerable households to be aware of the programme or come forward for support. Our proposals would build on this success. In addition, whilst Ofgem [via E-serve] has not fully evaluated the industry initiatives component of the scheme, NEA's own delivery of the scheme has found this part of the programme often provides better value for money than switching or even direct yearly rebates⁷.</p>
<p>Revenue implications for the Exchequer</p>	<p>Our proposed reforms include ways of delivering the WHD in a cost-neutral way to the Treasury.</p>
<p>Wider macroeconomic implications (for economic stability and growth)</p>	<p>Reducing energy costs for the poorest households helps reduce energy arrears and stimulates spending on other essential goods and services. It also has a positive impact on health and well-being, reducing the stress on current tax-funded services.</p>
<p>Sectorial and distributional impacts</p>	<p>The proposals would help the poorest working age households and the poorest fifth of society.</p>
<p>Administrative and compliance costs and issues</p>	<p>Whilst there would be a marginal increase in additional administration for DWP to undertake data-matching, this cost would be borne by suppliers and, given the reduction in compliance costs for obligated parties, there would be no overall additional costs.</p>
<p>Legislative and operational requirements</p>	<p>The primary powers within the Digital Economy Act and related regulatory schedules now enable automatic rebate to the 'Broader Group'. In order for the scheme to be extended and expanded, the current Warm Home Discount regulations would need to be amended and tabled next year in order for the new programme to start in April 2021.</p>

THE SPENDING IMPACT OF PROVIDING AN AUTOMATIC WHD REBATE TO ALL HOUSEHOLDS IN THE CORE AND BROADER GROUPS

One option that has previously been considered by the UK Government was to extend automatic rebate without increasing the scheme's spending envelope. If data-matching was extended to the Broader Group so all WHD eligible households (Core Group and compulsory Broader Group including low-income working families) received an automatic rebate this would equate to an estimated 2.8⁸ million rebates.

Within the current spending envelope (£320 million) this would mean the value of the rebate for all households would decrease by £26 from £140 to £114. This equates to a c.18% reduction in the value of the rebate.

If debt advice and income maximisation services under Industry Initiatives were retained (which we stress is crucial as it can provide better value for money than fuel debt write off or even direct yearly rebates), this would leave £280 million available for rebates to 2.8 million households.

Under this scenario the value of the rebate for all households would need to decrease by £40 from £140 to £100. This equates to a c.29% reduction in the value of the rebate. Given the number of frail and elderly people that die every winter, we do not believe the Government should reduce current support for low-income pensioners, nor should the UK-wide policy be targeted solely at fuel poor households under the Low Income High Cost (LIHC) definition.

In the following table we provide the options for the different costs associated with particular WHD scenarios. They are:

- the current scheme: an automatic rebate for Core Group only and 'first come first served' rebate for Broader Group
- an automatic rebate for Core and Broader Groups
- an automatic rebate for Core and Broader Groups and the retention of the current £40m Industry Initiatives budget.

Table 1: Value and number of WHD rebate(s) within the current spending envelope if rebate is paid to all households in the Core and Broader Groups within the current spending envelope

	Current WHD: Automatic rebate for Core Group only and 'first come first served' rebate for Broader Group	Future WHD option: Automatic rebate for Core and Broader Groups	Future WHD option: Automatic rebate for Core and Broader Groups and retain current £40m Industry Initiatives budget
Total number of WHD eligible households	2.8m	2.8m	2.8m
Spending envelope available for rebates	£280m	£320m	£280m
Spending envelope available for Industry Initiatives	£40m	None	£40m
Total spending envelope	£320m	£320m	£320m
Total number of rebates ⁹	2m (est.)	2.8m	2.8m
Number of eligible households who do not receive the WHD	0.6m	None	None
Value of rebate	£140	£114	£100
£ change from current rebate value	No change	-£26	-£40
% change from current rebate value	No change	-18%	-29%

THE SPENDING IMPACT OF PROVIDING AN AUTOMATIC WHD REBATE TO ALL HOUSEHOLDS IN THE CORE AND BROADER GROUPS AT THE CURRENT REBATE VALUE OF £140 AND RETAIN INDUSTRY INITIATIVES

If all 2.8 million eligible Core Group and Broader Group households within the standardised criteria received an automatic WHD rebate valued at the current amount of £140 this would increase the spending envelope by £112 million from £320 million to £432 million, if spending for Industry Initiatives is maintained (our preferred policy option).

Table 2: WHD spending envelope retaining current value of rebate and Industry Initiatives

	Future WHD option: Automatic rebate for Core and Broader Groups and retain £40m Industry Initiatives cap
Total number of WHD eligible households	2.8m
Total number of automatic rebates	2.8m
Total number of 'first come first served' rebates	None
Total number of rebates	2.8m
Value of rebate	£140
Spending envelope available for rebates	£392m
Spending envelope available for Industry Initiatives	£40m
Total spending envelope	£432m
£ change from current envelope	+£112m
% change from current envelope	+35%

THE IMPACT ON CUSTOMERS OF RESOURCING THE WHD

Assuming a unique Meter Point Administration Number (MPAN) equates to a single customer there are 28,100,000 domestic electricity customers in Great Britain and 23,200,000 domestic gas customers. This equates to 50,595,000 domestic energy meters in total.

In their supply market indicator methodology Ofgem explain how they calculate the WHD cost per customer: “[t]o calculate the cost of WHD as a proportion of the customer bill, we divide the total cost of the scheme by the number of gas and electricity customers of the large energy suppliers”¹⁰. Assuming a market share for larger suppliers of 97%¹¹ – then the **additional** cost of delivering an expanded WHD scheme to provide an automatic £140 rebate to all Core and Broader Group households whilst retaining Industry Initiatives would be approximately **£4.50 or a 0.4% increase** on an average dual fuel bill.

It should also be noted that this intervention would sit outside of the Levy Control Framework (LCF) but for illustrative purposes the total cost of the reformed WHDS would represent 4% of the total current LCF budget¹².

Table 3: Impact on bills of expanding WHD envelope

	WHD 2018/19: £320m spending envelope spread across larger suppliers only	Our preferred policy option
Total cost of WHD scheme	£320m	£432m
Total number of gas and electricity customers (GB)	50.6m (est.)	50.6m (est.)
Cost spread across customer base	Currently Obligated Suppliers (>150k accounts)	Currently Obligated Suppliers (>150k accounts)
Cost of delivering WHD per dual fuel customer¹³	£12.86	£17.36
% change on average dual fuel bill of £1178	No change	0.4%

Table 4: Summary of options for delivering reforms for the next stage of WHD

Option	Spending Envelope	Auto Rebates	Total Rebates	Rebate Per Customer	Marginal Cost to Customer
1. Do Nothing (i.e. Status Quo)	£320m	1.28m	2.2m	£140	£0
2. Broader Group Auto Rebate – Same Envelope	£320m	2.8m	2.8m	£114	£0
3. Broader Group Auto Rebate – Same payment	£432m	2.8m	2.8m	£140	+0.4% on an average dual fuel bill

The following table describes how to fund the scheme. It describes how it can be paid through bills, and then also from general taxation, as well as their relative pros and cons.

Table 5: Options for paying for additional WHD rebates

Policy option	How it would work	Financial Rationale	Pros	Cons
Levy	Levy costs would likely to be recoverable through bills as usual. Cost will be more than made up by the savings made in the Smart Systems & Flexibility plan	The smart systems and flexibility plan will deliver on average over £1bn a year up to 2050. Using a levy would essentially ensure that these savings are passed through in a more progressive way.	<ul style="list-style-type: none"> ■ Ensures support goes to the poorest. ■ Relatively admin light ■ No net cost to the taxpayer 	<p>Adds small cost onto bills</p> <p>Reduces payments to pensioners who may need it</p>
Tax – use Winter Fuel Payment money	Fund through a levy that is offset by a “Government Electricity Rebate” (GER) general taxation, but reduce or stop the winter fuel payment	The winter fuel payment costs the government £2bn a year. Reducing this by 17% would more than offset the added cost of extending WHD auto rebates	<ul style="list-style-type: none"> ■ Ensures support goes to the poorest in society 	Contradicts the Conservative manifesto pledge to keep the Winter Fuel Payment.
Additional tax funded support to offset impact on consumers via general taxation	Fund the expanded WHD through a levy on consumer bills that is offset by a “Government Electricity Rebate” (GER) paid for via additional general taxation	The additional taxation required to compensate households for a £112m increase in the size of WHD would be negligible.	<ul style="list-style-type: none"> ■ Negligible impact on tax payers ■ All other policies preserved 	Reintroduction of GER may add extra admin (compared to the levy)
Tax – use Cold Weather Payment money	Fund through a levy that is offset by a “Government Electricity Rebate” (GER) general taxation, but stop the Cold Weather Payment	In the last 8 years, Cold Weather Payments have costed on average £100m a year and up to £450m in a single year. Eliminating this would free up the budget required to cover the cost of extending WHD auto rebates.	<ul style="list-style-type: none"> ■ No net cost to the taxpayer ■ Support the same households as current policy but directly reduces bills as opposed to supplementing income (which CWP does) ■ WHD payment comes pre-winter as opposed to CWP, so WHD is more useful. ■ CWP seen as difficult to administer by DWP. BEIS could administer this proposal at little cost compared to the CWP 	<p>The CWP would need to be retained in Northern Ireland (as WHD is only a Great Britain-wide policy)</p> <p>In warm years, where the total spend of the Cold Weather Payment is low, the budget may not cover the amount needed for the expanded WHD.</p> <p>Reintroduction of GER may add extra admin (compared to the levy)</p>

SOURCES

1. <https://www.gov.uk/government/publications/upgrading-our-energy-system-smart-systems-and-flexibility-plan>
2. This is a payment from the UK Government which you can receive if you were born on or before 5 April 1954, it is not means tested and provides between £100 and £300 to help address the cost of heating bills.
3. This is a payment from the UK Government if the average temperature in an area is recorded as, or forecast to be, zero degrees celsius or below, over 7 consecutive days. The payment is £25 for each 7 day period of very cold weather between 1 November and 31 March.
4. Warm Home Discount Scheme 2018/19, Final Stage Impact, Assessment BEIS, June 2018.
5. In particular, it does not account for any potential future increase in the size of the eligible WHD cohort nor does it account for any potential future increase in the rebate amount to adjust for energy costs and inflation.
6. Business and Energy Secretary Greg Clark said: "the effects of energy price rises are often felt most by those on the lowest incomes. Enabling energy suppliers to establish who should be on Ofgem's safeguard tariff cap will help these vulnerable consumers. The proposed amendments to the Digital Economy Act will allow suppliers to work with government to carefully identify those whose energy bills are high and potentially putting them in financial difficulty. These people can then be placed under Ofgem's safeguard tariff cap, protecting them from high bills and unfair price rises".
7. In 2017/18 NEA led five industry initiative schemes, helping approximately 4,000 people with their energy bills. For further information please contact peter.smith@nea.org.uk.
8. This figure is estimated, based on figures provided by BEIS based on data from DWP. The estimate of Broader Group recipient's communications with the BEIS Warm Home Discount team who estimate from DWP data that a further 1.7m households are captured by the mandatory broader group criteria. An estimate of all customers that qualify for the Broader Group would result in an increase of over a million, based on the WHD 2019/19 Impact Assessment (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/716463/Warm_Home_Discount_FS_IA_Signed.pdf)
9. For the existing scheme numbers, the BEIS impact assessment assumes that some of the industry initiative money is used for rebates. The table is consistent with this, for the existing scheme. For the proposed scheme, we assume that no industry initiative money is spent on rebates.
10. See: https://www.ofgem.gov.uk/sites/default/files/docs/2015/04/smi_methodology_apr2015_0.pdf
11. See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/716463/Warm_Home_Discount_FS_IA_Signed.pdf (p.31)
12. CCC, 2017, Energy Prices and Bills - impacts of meeting carbon budgets, Annex Levy Control Framework costs and cost sensitivities: <https://www.theccc.org.uk/wp-content/uploads/2017/03/Energy-Prices-and-Bills-Committee-on-Climate-Change-March-2017-Annex.pdf>
13. This cost takes account of the £476m spending envelope only and excludes any administration costs that may be incurred and passed on by suppliers for delivering WHD.
14. This is based on the price cap for the average dual fuel customers, as of January 2020. The cap will increase on April 1, 2020, meaning that the percentage of the bill that an increased WHD levy would account for would change.



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Fair By Design is delivered by The Barrow Cadbury Trust on behalf of a group of foundations. Registered Charity Number: 1115476.



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