



## **AUGUST 2021**

[Fair By Design](#) welcomes the invitation to respond to BEIS' consultation on the Warm Home Discount.

Please note that we consent to public disclosure of this response.

For more information about this response, please contact Carl Packman:

[c.packman@barrowcadbury.org.uk](mailto:c.packman@barrowcadbury.org.uk)

## **ABOUT FAIR BY DESIGN**

Fair By Design is dedicated to reshaping essential services, such as energy, credit and insurance, so they don't cost more if you're poor.

People in poverty pay more for a range of products including energy, through standard variable tariffs; loans and credit cards with high interest rates; and higher insurance premiums, including through postcodes considered higher risk. This is known as the poverty premium.

We collaborate with industry, government, and regulators to design out the poverty premium.

Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

The Barrow Cadbury Trust runs our advocacy work on behalf of a group of foundations, and Ascension Ventures manage the Venture Fund.

## RECOMMENDATIONS

1. BEIS should take a phased approach to changing the criteria for eligible households. In the same way that there is a phased obligation on energy suppliers to offer the Warm Home Discount scheme, we think a similar approach should be taken for those on the borderline of eligibility who would, until now, have relied on access to a £140 rebate.
2. BEIS must regularly monitor the scheme and suppliers' industry initiatives to ensure that all of those who are eligible have their needs met by it. Also, BEIS must regularly be monitoring the scheme to ensure nobody who requires the scheme finds themselves ineligible in error.
3. BEIS must confirm and publish what measures will be in place to ensure nobody eligible is missed out in error as the new data-matching process is implemented.

## INTRODUCTION

Fair By Design supports the consultation to extend the Warm Home Discount scheme. In February 2020 we co-authored a report on the future of the Warm Home Discount with National Energy Action, describing the scheme as “providing a lifeline for millions”<sup>1</sup>.

As such we are pleased to see a description of options for an extended, expanded, and reformed scheme from 2022 to 2026. This will give certainty and comfort for millions of households across the country. We are also pleased to see the spending envelope for the scheme increase, and scheme targeting improved so that as many barriers as possible are removed to ensure better access.

We are particularly pleased with the principle of creating a Core Group 2. We fully support the scheme set-up to ensure one million households in the Core Group in receipt of Pension Credit Guarantee also receive the scheme automatically. One concern we had with the scheme set-up was that households in the Broader Group had to apply for access. This meant many eligible households just didn't access the scheme altogether. This was because they were not aware of the scheme or their supplier had run out of scheme money by the time they applied for it. Ensuring households in Core Group 2 receive the rebate automatically, using Data-sharing powers under the Digital Economy Act 2017, is a step in the right direction.

We are pleased to see that an increased number of households would receive the. However, we are concerned with the potential deleterious impacts of redistributing rebates to those living in the deepest fuel poverty.

While we support making sure those on the lowest incomes and living in fuel poverty are a focus of the scheme, we are concerned about what this will do to the finances of someone

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<sup>1</sup> [https://fairbydesign.com/wp-content/uploads/2020/02/02\\_NEA\\_WHD\\_doc\\_v04\\_Front\\_8pgs\\_DOWNLOAD.pdf](https://fairbydesign.com/wp-content/uploads/2020/02/02_NEA_WHD_doc_v04_Front_8pgs_DOWNLOAD.pdf) (p.5)

not judged to have high enough energy costs. Particularly if they are on a tight budget, and that budget includes their access to the Warm Home Discount.

Figures generated by National Energy Action show that there are particular groups who stand to lose out from this. In their consultation response to BEIS they show that lone parents, households with no dependent children, and people over 60 who live in properties with an EPC of F or G are unlikely to receive a rebate under these new proposals.

While we recognise that there has to be a line drawn somewhere on eligibility, we think BEIS needs to be cautious when withdrawing a lifeline to certain households at a period when so many are struggling.

We support the move to make supplier spending on Industry Initiatives mandatory. These initiatives have also provided a lifeline to energy customers, so making sure all suppliers have a duty to spend this money on providing targeted support is vital.

We are particularly keen on moves to introduce a minimum obligation for providing customers with financial assistance, in addition to a cap. This is because we know that the cap doesn't always provide adequate price protection. With the price cap increasing for millions of households from 1 October 2021<sup>2</sup>, household energy will become unaffordable for many. This will undoubtedly increase the level of arrears, financial precarity of low income energy customers, and will result in cold homes and self-disconnections. It will also increase the chances of people dying in their homes in the winter. So earmarked money to provide vital assistance is indispensable.

Finally, we support the reduction in the number of supplier's customer accounts (the "threshold") for full scheme participation. We also support the staggered approach taken to reduce the number even further to 1,000 in 2023/24. This gives the opportunity for smaller energy companies to carry out the appropriate preparations to ensure they participate in the scheme. Ultimately this also means that more energy companies will provide the scheme, solving for another previous problem with the way the scheme operated: namely that some customers were switching providers to smaller energy firms for a better deal, only to find they lose access to the Warm Home Discount on the grounds that their new supplier was not obliged to provide it.

It's so important that we have schemes and initiatives like the ones being consulted on. Not least because the pandemic has resulted in untold hardship, the likes of which has rarely been seen before.

For some households the early period of the pandemic meant increased savings. This was down to lockdown and working from home practices.

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<sup>2</sup> <https://www.thisismoney.co.uk/money/bills/article-9864473/Energy-bills-rise-150-year-millions-price-cap-soars.html>

However, this wasn't the experience of everyone. Research [carried out by the Commons Library](#) shows the extent to this asymmetry:

*While on the whole, household savings have risen and debt has remained at a similar level, there is evidence to suggest that some households, particularly those with low incomes, have run down savings and increased debt since the start of the pandemic.*

*The Office for National Statistics found that by December 2020, nearly 9 million people had to borrow more money than usual because of coronavirus.*

*Groups which are more likely than average to have taken on more debt since the start of the coronavirus pandemic include renters, people from minority ethnic groups, parents and carers, disabled people and those who are shielding, and young people.*

The groups hardest hit by the pandemic are also the most likely to face extra costs on their essential services spending, like household energy. The poverty premium affects almost every person on a low income and costs the average low income household £490 a year; for more than one in ten of low income households it costs at least £780. Bristol University found that 99% of low income households paid at least one poverty premium. Experience of the poverty premium is compounded by factors such as vulnerability, digital exclusion, and geography.

In our most recent research of 1,000 low income households accessing the services of national poverty charity Turn2us, evidence shows that poorer households are spending the equivalent of 14 weeks' worth of food shopping just to access the same services as people who are better off.

Being on the best energy prepayment tariff could still be £131 more expensive than the best online-only one. Being on a fixed tariff could also still be costly: not paying by direct debit costs up to £143 more a year.

Ensuring the Warm Home Discount meets the needs of all those who are eligible – many of whom have suffered financial harm in some way during the pandemic – is absolutely essential.

**Recommendation:** BEIS must regularly monitor the scheme and suppliers' industry initiatives to ensure that all of those who are eligible have their needs met by it. Also, BEIS must regularly be monitoring the scheme to ensure nobody who requires the scheme finds themselves ineligible in error.

## OUR RESPONSE

**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?**

Yes.

**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?**

Yes.

**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 are pleased to see that an increased number of households would receive the rebate. However we are concerned with the potential harmful impacts of redistributing rebates to those living in the deepest fuel poverty.

While we support making sure those on the lowest incomes and living in fuel poverty are a focus of the scheme, we are concerned about what this will do to the finances of someone not judged to have high enough energy costs. Particularly if they are on a tight budget, and that budget includes their access to the Warm Home Discount.

Figures generated by National Energy Action show that there are particular groups who stand to lose out from this. In their consultation response to BEIS they show that lone parents, households with no dependent children, and people over 60 who live in properties with an EPC of F or G are unlikely to receive a rebate under these new proposals.

While we recognise that there has to be a line drawn somewhere on eligibility, we think BEIS needs to be cautious when withdrawing a lifeline to certain households at a period when so many are struggling.

The loss of the rebate would be implemented when millions of households are experiencing an increase in their energy costs, following the biggest ever increase to the energy price cap and many will see a reduction in their incomes, as furlough winds down and the uplifts to Universal Credit are likely to be withdrawn. The loss to some households could amount to several hundreds<sup>3</sup>. This combination of higher prices and reduced incomes could lead to a surge in utility debt and badly damage physical and mental health, irrespective of whether they also live in older, leaky inefficient housing.

**Recommendation:** BEIS should take a phased approach in changing the criteria for eligible households. As we know there is a phased obligation on energy suppliers to be offer the Warm Home Discount scheme (the threshold for full scheme participation being 50,000 domestic customer accounts across Great Britain for the 2022/23 scheme year, and to 1,000

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<sup>3</sup> Based on an estimation by National Energy Action: a loss of the £150 WHD and £100 price cap increase in April 2021, £150 price cap increase in October 2021.

accounts from 2023/24). We think a similar approach should be taken for those on the borderline of eligibility who would until now have relied on access to a £140 rebate. We think this is the fair thing to do at a difficult financial time for many households.

Additionally, we endorse National Energy Action's recommendation that since the Government is using an algorithm to decide on winners and losers within a vulnerable section of society, they ensure that the process meets the ALGO-CARE standard. Namely that the process: is Advisory in that a human will make the final decision; is Lawful in its application; has the right level of Granularity to ensure good outcomes; has clear Ownership structures; is Challengeable by households; is Accurate in delivering its aim; is transparent and used in a Responsible way; and is Explainable to households.

**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?**

Yes.

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

In principle we agree with the proposed data-matching process. We think it's vital that government data is used to identify those in need of the scheme in order to automatically offer those eligible the rebates. This takes the burden away from energy customers.

**Recommendation:** BEIS must confirm and publish what measures will be in place to ensure nobody eligible is missed out in error as the new process is implemented.

In terms of what happens to households once considered eligible but who are now not, please refer to our answer for question 3 above.

**Questions 6 – 9:** We have not responded to these questions.

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

Yes. Since not everyone would get the Warm Home Discount scheme, even if they were eligible, in the previous versions of the scheme this meant that there was clearly not enough money for the scheme. The increase reflects the need to ensure all those eligible are able to receive the rebate.

While we agree with the overall spending targets, we share the concern of National Energy Action that while three million households will qualify for the WHD across Great Britain, there are almost 4 million fuel poor households across England, Wales, and Scotland. Furthermore, the scheme targeting is such that approximately half of recipients are not fuel poor. This means that there are a significant number of households that will not receive support.

**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%?**

We have not responded to this question.

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

Yes. Doing so will ensure that suppliers will engage in supplementary activities to the benefit of energy customers, such as providing financial assistance to those who need this.

**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?**

We have not responded to this question.

**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?**

To be eligible for a rebate, a household will need to be in receipt of a means tested benefit. Figures from National Energy Action show that 46% of fuel poor households are not in receipt of benefits. So many fuel poor households will not have access to a rebate. With the spending envelope for the Warm Home Discount staying as it is, then this additional spending (approximately £30m) for the rebate increase would be better put into more money for Industry Initiatives (the average cost to provide an industry initiative for a household is less than the cost of providing a rebate). This is so more people in need can benefit from things like energy efficiency measures, energy advice, and debt assistance.

If the spending envelope for the Warm Home Discount scheme in its entirety could be increased, then an increase in the value of the rebate would be very welcome on the grounds that the extra money to households entitled to a rebate would go further. Particularly in the context of higher average energy bills.

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

Yes.

**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 support an increase in principle. But we would prefer BEIS to show evidence that this cap is not set at below the cost needed. We are keen to see evidence that shows that this cap won't result in unmet need, if suppliers are unable to find other ways to fund financial assistance should that be required.

**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?**

Similarly to the previous answer, we would want to see evidence showing that this cap per household won't result in unmet need, if suppliers are unable to find other ways to fund financial assistance should that be required.

**Our response below covers questions 18, 19 and 20.**

**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?**

**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?**

**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 agree in principle with the decision to specifically earmark money for those on PPMs. And that the decision to cap debt-write offs are in line with what is realistic, and what providers can afford. However similar to our previous answers, we would want to see evidence showing that these caps won't result in unmet need, if suppliers are unable to find other ways to fund financial assistance should that be required.

**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?**

Given that there are other government schemes, like the Energy Company Obligation, providing non-emergency support for boilers, then we agree this in principle. As long as there is certainty that nobody requiring a gas boiler replacement will fail to get this service either through the industry initiatives or other ECO support.

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

We have not responded to this question.

**23. Do you agree that the obligation threshold for the whole scheme should be reduced from April 2022 to 50,000 domestic customer accounts?**

Yes.

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

Yes.

**Questions 25 – 31:** We have not responded to these questions.