Department of Energy & Climate Change

Government Response

Warm Home Discount

Flexibility for higher spending

December 2013

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What we consulted on

Background

The Warm Home Discount began in April 2011 and provides assistance annually to around 2 million low income and vulnerable households in Great Britain. The assistance is currently provided by the seven largest energy suppliers, each of which has over 250,000 domestic customer accounts. The main focus of the scheme is on electricity bill rebates and this winter over 1 million households have already received £135 off their bill.

The scheme has annual spending targets and the spending target for 2013/14 is £300m. If expenditure on the scheme is above or below the annual spending target, the target for the following scheme year is adjusted accordingly.

The largest element of the scheme is the Core Group, a subset of people receiving Pension Credit Guarantee Credit. Participating suppliers have to provide specified electricity bill rebates to all their Core Group customers, identified through matching energy supplier data with Government-held data. However, suppliers do not have to pay all customers eligible for other parts of the scheme – known as the non-core spending. On the basis of our estimate of how many people will qualify for the Core Group each year, we estimate how much non-core spending suppliers have to carry out in order to meet the annual spending target. This year we estimated that Core Group spending would be £200m in 2013/14. Given a total spending target of £300m, we therefore notified Ofgem in February that the non-core spending obligation should be £100m. Ofgem then informed suppliers of their individual non-core spending obligations.

Since setting the non-core spending obligation, we have established that the number of people receiving the qualifying benefit for the Core Group is much lower than the original forecast used to estimate Core Group spending. If we did nothing, then scheme spending would likely be £266m this year with a consequently higher spending target next scheme year (£344m rather than £310m). This would have a negative impact on fuel poverty this scheme year and potentially create delivery and compliance problems next year. Therefore, we wanted to enable a solution which would result in higher non-core spending this year than the original obligation we set.

The proposal

Given the projected spending is £34m below this year's spending target, we wanted to give the participating energy suppliers the incentive to spend £34m more in total than the original non-core spending obligation. That would be 34% higher than the non-core spending obligation of £100m.

Under the current Regulations, there is flexibility for suppliers to spend 1% above their individual non-core spending obligations. Supplier obligations for the following year are then adjusted down based on their use of that flexibility. We proposed changing the scheme Regulations to allow suppliers to spend up to 34% more than their non-core spending obligation and, therefore, reduce their obligation for 2014/15 by a corresponding amount. This would be an option, not a requirement, but would only allow greater flexibility to spend more this year and not to spend less than is already permitted.

We had considered other options prior to the consultation but concluded this to be the best one available, potentially resulting in significantly higher spending on electricity bill rebates and smoother spending trajectories between years. This was also a simple proposal which could be implemented relatively quickly. Speed was essential to give suppliers confidence as soon as possible that they could spend more and subsequently reduce their non-core spending obligation for 2014/15.

The Consultation

We received 12 responses to the consultation and the respondents are listed at Annex A. We had discussed the issue and the proposal with participating suppliers and Ofgem prior to publishing the consultation.

What respondents said

We asked two questions in the consultation.

Q1. Do you agree with the proposal to change the Warm Home Discount Regulations to allow suppliers to spend up to 34% more this year on the non-core elements of the scheme, thereby reducing next year's obligation by a corresponding amount?

All 12 respondents supported the proposal to allow suppliers to spend up to 34% more this year on the non-core elements of the scheme thereby reducing their obligation for next scheme year by a corresponding amount. However, several responses to this question went beyond the proposal in the consultation. In particular, the main focus of responses from suppliers was on the potential delivery problems they may face in 2014/15 as a result of a significantly higher Broader Group spending requirement.

Some suppliers highlighted that increasing the scale of spending on the Broader Group would add considerable cost to their administration and verification processes, and thus impact consumer bills. One supplier was concerned about the impact of delays and on-going changes to Universal Credit on suppliers' ability to find and verify Broader Group customers.

In view of these concerns, several suppliers asked Government to consider further changes to the scheme. There were three changes proposed, each of which would require further amendment to the policy: raising the spending cap on industry initiatives; increasing the value of the rebate and increasing the size of the Core Group.

1. Raising the spending cap on industry initiatives

Several respondents felt that the current spending cap of £30m on industry initiatives should be raised. They argued that industry initiatives provide a scalable approach to addressing the underspend which would be more cost effective to deliver than identifying additional Broader Group customers. Their view was that this would ensure vulnerable customers will receive financial assistance sooner, rather than later.

2. Raising the value of the rebate

Some respondents felt that raising the value of the rebate offered to Core Group and Broader Group customers should be considered to offset the Core Group underspend and to make delivery easier in 2014/15.

3. Increasing the size of the Core Group

A proposal from several respondents was to broaden Core Group eligibility criteria. Again, the key aim would be to increase Core Group spending in year 4 of the scheme and thereby reduce the non-core spending obligation.

One respondent asked that Government consider ways of increasing the uptake of Pension Credit, for example funding an awareness campaign. A significant proportion of people believed to be eligible for Pension Credit do not claim it, thereby also missing out on a Core Group rebate.

Other issues, less focused on short-term changes to the scheme Regulations, were also raised in responses. A key concern for some suppliers was the impact of finding and verifying more Broader Group customers. One supplier raised a concern on impact of the on-going changes and delayed introduction of Universal Credit on Suppliers' ability to find and verify Broader Group eligibility.

Some respondents suggested that wider data-sharing powers to identify and verify eligible Broader Group customers would reduce costs and speed up verification and eligibility processes. One respondent also included a suggestion that Government consider ways to use communications about the scheme to attract more Broader Group customers.

Finally, several energy suppliers requested that Government improved its forecasting of Core Group spending in order that an issue of this magnitude does not arise again.

Q2 If you are a participating energy supplier, please indicate how much extra spending above your current non-core obligation you expect to carry out this scheme year? Please indicate if you would like this information to be confidential.

Whilst some suppliers have indicated their intent to extra spending above their current non-core obligation, they were not able to provide a forecast.

Two suppliers, British Gas and Eon, have indicated spending above their current non-core obligation. British Gas estimates overspending by 10% while Eon estimates an additional 15,000 Broader Group rebates above their obligation.

What we intend to do

Having considered the responses to the consultation, we intend to implement the original proposal that we consulted on. We will therefore lay an amendment to The Warm Home Discount Regulations 2011 before Parliament to increase to 34% the flexibility by which suppliers can overspend against their non-core spending obligation this scheme year and consequently reduce their obligation for next scheme year by the same amount. For example, if a supplier spends £5m more this year than they are required to, their non-core spending obligation for 2014/15 will be reduced by £5m.

Most suppliers have indicated that they will spend more than their non-core spending obligation this year whilst not being able to forecast how much that extra spending will amount to. Therefore, we cannot estimate accurately how much extra spending will result from this measure. We expect the extra spending to be significant (several million) which will result in £135 electricity bill rebates being paid to tens of thousands more households than would have been the case otherwise.

Prior to consultation, we had considered several of the options which have subsequently been proposed by respondents and had concluded that they were less effective in trying to achieve our objective than our chosen solution. For example, we did not want to increase the cumulative threshold for legacy spending and industry initiatives. While being valuable elements of the scheme, they are not as effective at providing consistent and equitable assistance to a large number of households as Broader Group rebates. It is also more onerous to quantify and verify their benefits rather than that of £135 electricity bill rebates. Therefore, after fulfilling the current spending limits on legacy spending and industry initiatives, we would rather suppliers spent more on Broader Group rebates this year. We accept that this decision may lead to less spending this year than if the industry initiatives and legacy spending threshold were raised. Nevertheless, we would prefer extra Broader Group rebates paid next scheme year as part of a higher annual spending target – supporting households directly through rebates is the core purpose of the scheme.

We have also considered the option of increasing the size of the Core Group for next year by broadening the eligibility criteria. This would not help directly with the underspend this year though it would mean that the higher non-core spending target next year would be easier and cheaper to deliver. However, the eligibility for the Core Group next year is already wide; everyone in receipt of Pension Credit Guarantee Credit. Given an annual spending target, it would be difficult to widen the Core Group without, in turn, significantly reducing the size of the Broader Group.

A further option would be to increase the size of the rebates beyond the currently prescribed level. It is not practical to increase the size of the rebate for this winter given that a large number of rebates have already been paid. Increasing the size of the rebate for next year, for example from £140 to £145, would, once again, not help overcome this year's underspend although it would help delivery for next year. On balance, we would rather maintain the rebates at the levels currently set out in Regulations and thereby provide help to more households.

As well as the reasons set out above, a key reason for not pursuing the proposals from some respondents is timing. For the current measure to be effective, a key priority for suppliers was to get certainty as quickly as possible. Going beyond what was originally proposed would have caused delay to this response and to the eventual Regulations. Some of the proposals may even have required another formal consultation given that they were more focused on reducing delivery risks next year than addressing this year's underspend, the primary objective. Therefore, making further policy changes was not consistent with the aim of reaching a

Government decision this calendar year and providing certainty to suppliers while it can still result in meaningful action.

On the issue of Broader Group administration costs, we appreciate there is a burden in finding eligible customers and processing applications. We are considering whether we could expand data matching in the future though that is likely to require new primary legislation. In the short term, cost and effort expended on increasing the size of the Broader Group this year will reduce the cost in 2014/15 by decreasing next year's obligation but also by identifying customers who are likely to also qualify next year. Economies of scale may also be achieved through getting a larger number of applicants through the same process.

We recognise that the projected underspend is the result of Government forecasting rather than supplier error or inaction. This point was explained further in the consultation document. Therefore, as well as making the policy change explained above, we will continue to ensure our forecasts are as accurate as possible with the information available at that time. Whilst we can never ensure complete accuracy due to the time lapse between setting the non-core spending obligation and the scheme qualifying date, we have put in place a process to produce a count of the current Core Group caseload for each winter at a point in time just before notification of non-core spending obligation is issued to suppliers and ensure that the most up to date forecasts are used.

We also recognise that not all pensioners who are able to claim Pension Credit do so, thereby limiting the size of the Core Group at the qualifying benefit stage. For example, take up of Pension Credit Guarantee Credit is 73% – 80%. The Department for Work and Pensions (DWP) has several policies and information services in place to increase take up of Pension Credit. For example, Pension Credit is explained to people making State Pension claims, information is available on www.gov.uk and on the DWP Information Line on 0845 731 3233 and DWP has developed a free Pension Credit toolkit for local organisations working with older people to use.

Finally, we have considered ways we could increase interest in and awareness of the Broader Group. We have already disseminated information about the Broader Group, including each supplier's eligibility criteria, to organisations providing consumer advice, especially to low income and vulnerable people. We will look for further such opportunities and welcome suggestions on how we can do this most effectively.

Next steps

For the period 2015/16 onwards, new scheme Regulations will be required. A future consultation on those Regulations will provide a further opportunity to consider some of the issues raised in the context of this consultation.

To put this change to Regulations into effect, the amendment will have to be approved by the Joint Committee on Statutory Instruments (JCSI) and by both Houses of Parliament following scheduled debates. The timing of this is dependent on other Parliamentary business and is not within our control. Nevertheless, we will aim to lay the Regulations as soon as possible and expect debates to happen early in 2014. If they are approved, the Regulations will come into force within a few days of the final debate.

Regardless of whether the Regulations are in force by that date, by 14 February we will inform Ofgem of the non-core spending obligation for 2014/15. By 14 March, Ofgem will inform suppliers of their individual non-core spending obligations. Ofgem will adjust the individual spending obligations for scheme year 4 by 30 September 2014 based on verified non-core spending in 2013/14. If the change to Regulations is approved by Parliament, the downward adjustment to non-core spending could be up to 34% in value of each supplier's non-core spending obligation in 2013/14.

List of respondents to the consultation

Energy suppliers

British Gas
EDF
EON
RWE Npower
Scottish Power
Scottish and Southern Energy

Other

Office of Gas and Electricity Markets (Ofgem)
Energy Action Scotland
Energy UK
Islington Council
Glass and Glazing Federation
One private individual

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