Department of Energy & Climate Change

Warm Home Discount Scheme

16D/029 8 April 2016

The consultation and Impact Assessment can be found on DECC's website:

https://www.gov.uk/decc

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Contents

General information

Purpose of this consultation:

This consultation proposes a number of changes to the Warm Home Discount Scheme including who will receive the rebate in future scheme years. The consultation is aimed at all those with an interest in fuel poverty policies, especially those interested in the Warm Home Discount. In particular we seek views from affected individuals, energy suppliers and organisations that represent low income and vulnerable households.

Issued: 8 April 2016

Respond by: 6 May 2016

Enquiries to:
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Department of Energy & Climate Change,
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London, SW1A 2AW
Tel: 0300 068 6155
Email: warmhomediscount@decc.gsi.gov.uk
Consultation reference: URN 16D/029

Territorial extent:

The Warm Home Discount is a policy which applies to Great Britain

How to respond:

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Please e-mail your responses to: warmhomediscount@decc.gsi.gov.uk

Hard copy responses should be sent to:

Warm Home Discount team
Department of Energy & Climate Change,
1st Floor Area E,
3 Whitehall Place,
London, SW1A 2AW

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at: https://www.gov.uk/government/consultations/warm-home-discount-scheme-201617

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on the GOV.UK website. This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance:

This consultation has been carried out in accordance with the Government's Consultation Principles.

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator
3 Whitehall Place
London SW1A 2AW
Email: consultation.coordinator@decc.gsi.gov.uk

Executive Summary

Since 2011, the Warm Home Discount has helped around 2 million low income and vulnerable households each year by reducing their energy bills at the time of year when it is most needed. That is why this Government has committed to continuing the scheme until 2021 at current levels of spending - £320m per year rising with inflation.

Over the next five years, we want to build on the success of the scheme, simplifying the way it is delivered and targeting it more accurately at the most vulnerable. We want to expand the successful data matching process we currently use for people on Pension Credit, so that in future all energy bill rebates will be provided in the same way, removing the need for consumers to fill out applications. And, we want to target the households most at risk of fuel poverty – those on low incomes living in homes which are expensive to heat – while protecting the pensioners who currently benefit. In order to do that, the Government has started a consultation proposing to introduce primary legislation which would allow wider data sharing between Government and delivery bodies such as energy suppliers.

Should Government obtain wider data sharing powers, this could pave the way for the Warm Home Discount providing all direct energy bill rebates using data matching from 2017/18. Until that time, we are proposing to keep the Core and Broader Group elements of the scheme unchanged for 2016/17. That would mean that all eligible pensioners on Pension Credit Guarantee Credit would continue to receive £140 off their bills. Under the Broader Group, suppliers would continue to provide £140 rebates to eligible low income and vulnerable households who successfully apply.

We are also proposing to continue the Industry Initiatives element of the scheme where we are proposing some changes in 2016/17. Firstly, we are proposing a cap on the total proportion of its spending each supplier can use on debt assistance (last year suppliers spent over 70%). We are also proposing to enable organisations which create innovative schemes to alleviate fuel poverty to bid for industry initiatives funding. This will enable innovation in how the most vulnerable are identified and helped as well as providing a simple way for suppliers to meet their obligations.

In addition, we are proposing to make small operational changes this year which would allow rebates off gas bills and better reflect final spending on rebates for prepayment meter customers. Finally, we are seeking initial views on the future of the Warm Home Discount beyond 2016/17, including on the participation threshold for suppliers.

The Current Scheme

The Warm Home Discount (WHD) is a key policy in the Government's programme to tackle fuel poverty and the pressure placed by energy prices on low income households. Launched in April 2011, it has helped over 2 million low income and vulnerable households each year with their energy costs. In the first four years of the scheme, over £1.1 billion was spent by participating energy suppliers on their eligible customers.

The WHD is set out in legislation and requires suppliers with over 250,000 domestic customer accounts to participate. In its first 2 years, only the 6 largest energy suppliers were part of the scheme whereas now, in Scheme year five, 11 suppliers are participating. This illustrates the increased level of competition in the domestic energy supply market and overall provides more consumer choice for people who qualify for the scheme.

The intention of the WHD was to provide consistent and clear levels of support with energy bills to a large number of low income and vulnerable households. It also provided a gradual transition from the social tariffs and rebates which preceded it. These were established by the Voluntary Agreement between Government and the 6 largest energy suppliers from 2008-2011.

The regulations which underpin the WHD were amended in 2015 to extend the scheme for a further year to 2015/16. Currently in its fifth year, the scheme has, once again, provided £140 off electricity bills to over 2m households.

In 2015/16 the WHD was made up of three parts:

- The Core Group – people in receipt of Pension Credit Guarantee Credit (this includes customers who also receive Savings Credit). Suppliers provided £140 off electricity bills to their eligible customers.
- The Broader Group – suppliers provided £140 off electricity bills to low income and vulnerable customers who met their individual eligibility criteria and successfully applied.
- Industry Initiatives – suppliers provided a range of measures including debt assistance, benefit entitlement checks and energy advice to domestic customers in or at risk of fuel poverty.

Rebates were provided to customers regardless of payment type. Direct debit and credit customers received the rebate directly off their bill. Prepayment meter customers received the rebate in a variety of ways depending on their supplier, usually being sent a voucher or their prepayment card/key being topped up when they added credit at their usual outlet.

In the first three years of the scheme, Legacy Spending was also an element of WHD. This included social and discounted tariffs and rebates which had begun during the Voluntary Agreement. These were gradually phased out as more people received a set rebate off their electricity bills as part of the Core and Broader Groups.

There has been an overall spending target for each year of the scheme and spending caps on Legacy Spending and Industry Initiatives. The Core Group is demand led – suppliers have to pay their eligible customers – and makes up the majority of scheme spending. The level of spending on the Core Group each year is forecast in advance, at which point the non-core spending target is set. Therefore, once suppliers have spent as much as they are required to, they do not have to provide further help under the scheme.

The WHD is a Government scheme delivered by participating energy suppliers. Ofgem is the scheme administrator and the Department for Work and Pensions (DWP) plays a key role in the operation of the Core Group as well as providing a Broader Group customer verification service directly for suppliers.

The Core Group

The WHD Core Group comprises of households in receipt of Pension Credit Guarantee Credit, including those who receive Savings Credit. As the total spending amounts and the proportion available for the Core Group have increased each Scheme year, so the size of the Core Group has increased. This has happened, as originally envisaged, due to an expansion of the eligibility criteria in each year of the scheme. As a result, under the Core Group, around 700,000 households received a £120 rebate in Scheme year 1 and over 1.4m received £140 in Scheme year 4.

Each year there is a set qualifying date for the Core Group – normally in mid-July. Participating energy suppliers are required to provide rebates to all those people who are their customers on that date and who meet the eligibility criteria. Through a system of data matching, the DWP informs suppliers which of their customers should be paid a Core Group rebate. The vast majority of customers receive a letter telling them their data has been matched and they will receive a rebate before 31 December without having to take action.

Not all pensioners in receipt of the qualifying benefit are eligible or receive the rebate automatically as described above. Firstly, customers who are not with participating suppliers or who are not named on the electricity account are not eligible. Secondly, there are instances where customers are eligible but are not identified in the data matching process because the name and address details held by DWP and the energy suppliers differ. In order to capture this second group of people, Government sends letters to all people who have not been identified as part of the data matching process but are in receipt of the qualifying benefit. This letter requests that they phone a call centre in order to verify their eligibility. Once this process has been completed successfully they too receive a rebate, usually before 31 March.

In Scheme year 4 around 1.34m people received the rebate automatically and around 80,700 received it as a result of receiving the letter and claiming successfully through the call centre.

All eligible Core Group participants identified on the qualifying date as part of the two processes described above are entitled to a rebate and their participating supplier is obliged to provide it to them.

Broader Group

The Broader Group forms part of the 'non-core' spending obligation and is the second largest component of the WHD scheme. It is administered by participating energy suppliers who determine the eligibility for groups of households in or at risk of fuel poverty who are not part of the Core Group. Suppliers are required to spend a minimum amount on the Broader Group; the minimum is set by Ofgem depending on each supplier's market share. Suppliers often spend beyond this required minimum and adjust their spend on other non-core spending (Industry Initiatives) or simply spend beyond their obligation.

The Broader Group generally includes low income households, including families on means-tested benefits and tax credits. As explained above, data matching is not applied to the Broader Group so customers have to apply to their electricity supplier for the WHD rebate.

In scheme year 5 (2015/16), Government introduced a set of standard criteria that all participating energy suppliers would have to adopt for their Broader Group schemes. Alongside this, energy suppliers are permitted to have additional criteria, subject to Ofgem approval. The standard criteria are based on a variation of the Cold Weather Payments group and low income working families in receipt of in work benefits and with a child under 5 or a disabled child.

Table 1: The standard eligibility criteria for the Broader Group

<table>
<tr><th>Means-tested benefits (must receive one or more of the following)</th><th>In work benefits (must receive one or more of the following)</th></tr>
<tr><td>Income Support or Income-based Jobseeker's Allowance, with any of following:
a disability or pensioner premium
a child who is disabled
Child Tax Credit that includes a disability or severe disability element
a child under 5 years living with them
Income-related Employment and Support Allowance (ESA), which includes a support or work-related component with any of the following:
a severe or enhanced disability premium
a pensioner premium
a child who is disabled
Child Tax Credit that includes a disability or severe disability element
a child under 5 years living with them
Universal Credit, and is not in work or is in work or is self-employer with any of the following:
limited capability for work element (with or without a work-related activity element)
the disabled child element
a child under 5 years living with them
disabled child element, whether employed or not.</td><td>Total household annual income is less than or equal to £16,190 (and in receipt of Child Tax Credits or the Universal Credit equivalent) with either:
a child aged under 5 years living with them
a disabled child living with them with a Child Disability Premium or claiming Child Tax Credit that includes a disability or severe disability element.</td></tr>
</table>

Industry Initiatives

Within this element of the WHD suppliers can spend a maximum of £30m cumulatively on other forms of support to benefit fuel poor and vulnerable households; they are not restricted to helping their customers.

The WHD Regulations set out that energy suppliers are able to carry out a series of activities under the Industry Initiatives section of the scheme which include:

- Payments to organisations for referrals
- Benefit entitlement checks and or assistance to claim
- Provision of energy, thermal efficiency measures, energy efficient appliances or micro generation
- Provision of Energy Efficiency Advice
- Funding training to provide Energy Advice
- Provision of assistance to reduce or cancel energy debts as part of a package

- Rebate payments to eligible occupiers of mobile homes
- Provision of energy efficiency advice and/or measures to customers:
    i. In off-gas grid homes
    ii. In households with a person who has a significant health problem or disability
    iii. in communities wholly or mainly in fuel poverty

Energy suppliers are given the flexibility to work with other organisations, such as charities, to deliver their measures, as long as the activities remain within the scope of those set out in the Regulations. Suppliers must obtain approval from Ofgem in order that their industry initiatives spending counts towards their obligations.

What has happened so far?

A breakdown of the spending and customers benefiting from industry initiatives under the scheme can be found in table 2 (below). It demonstrates that the spending decreased slightly in Scheme year 2 but more customers benefitted from the schemes run by suppliers. In Scheme year 3, the spending increased and more customers benefitted from the schemes. Year 4 saw a decrease in spending and number of customers benefitting.

Suppliers chose to spend less than the £30m available for the Industry Initiatives section of the scheme for a variety of reasons. During the first two years, suppliers were able to take this approach as they were able to spend flexibly between the Legacy Spending and Industry Initiatives portions of the WHD. In later years, suppliers have chosen to spend more on Broader Group support.

Table 2 – Total spending on Industry Initiatives during Scheme years 1 – 4

Scheme year	Total spending on Industry Initiatives	Number of customers benefitting
Year 1	£22.3m	80,801
Year 2	£21.9m	98,739
Year 3	£22.3m	169,186
Year 4	£20.1m	127,269

Though suppliers have been able to spend up to a maximum of £30m on Industry Initiatives, spending has ranged from £20.1m to £22.3m over the first four years of the scheme. The highest proportion of spending has been on debt assistance, which peaked at 72% of total spend in scheme year 4. The activity under which most customers benefitted from Industry Initiatives was energy advice which peaked at 63% of customers benefitting in scheme year 4.

The future Warm Home Discount in context

Fuel poverty indicators and targets

Fuel Poverty is a devolved matter, with separate indicators, targets and strategies adopted by each nation.

In England, a household is considered to be in fuel poverty if the home has higher than typical energy costs (e.g. for instance because of poor energy efficiency) and, were they to spend that amount on energy, they would be left with a residual income below the official poverty line. Households who meet both conditions are referred to as Low Income High Costs (LIHC). There are currently just over 2.3m households living in fuel poverty in England.

The Government has a statutory target to raise as many fuel poor homes in England as is reasonably practicable to energy efficiency Band C by 2030, with milestones of Band E by 2020 and Band D by 2025. In March 2015, DECC published a new fuel poverty strategy, "*Cutting the cost of keeping warm: a fuel poverty strategy for England*". The strategy is our roadmap for meeting the target and interim milestones in a way that reflects a number of guiding principles – these include prioritising the worst cases first and taking account of vulnerability.

Scotland and Wales use the 10% indicator, whereby a household is considered fuel poor if they need to spend more than 10% of their net income on energy. In Scotland and Wales, a household is considered to be in severe fuel poverty if they have to spend 20% or more. Scotland has a statutory duty to eradicate fuel poverty in Scotland, as far as is reasonably practicable, by November 2016. The Scottish Fuel Poverty Statement, published in August 2002 and last reviewed in 2014, sets out in further detail how this target will be achieved. The Welsh Government has a similar statutory target to eradicate fuel poverty by 2018.

There is finite support available to help fuel poor households so it is right to prioritise delivery on those in greatest need. Although fuel poverty is defined differently in Scotland and Wales compared to England, there are significant similarities in the characteristics of households deemed to be in fuel poverty across GB. Therefore, at this stage, we are not proposing to introduce variations in the way WHD is delivered in different parts of Great Britain. This may change, however, when powers to design and implement a fuel poverty scheme are devolved to Scotland (further details provided later in the consultation document).

The need for a new targeting approach

The independent review of fuel poverty by Professor John Hills concluded that larger households require a higher income to achieve the same standard of living as a smaller household[1]. This results in a greater proportion of the fuel poor being of working age, particularly families with children. These can also be some of the most vulnerable to the effects of living in a cold home. Also, because of the greater focus on energy costs and our improved analysis we have a specific focus on particular households, such as those living off the gas grid.

Since the WHD began in 2011 we have introduced a new statutory fuel poverty target and strategy for England and continued to enhance our analysis and insight into how current policies are contributing to the alleviation of fuel poverty.

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[1] Hills Fuel Poverty Review (2012), p40: www.gov.uk/government/publications/final-report-of-the-fuel-poverty-review

During the course of the Spending Review, we have taken stock of how these developments may need to be reflected in the design of future policies, including WHD. A key consideration (particularly for England, but also for the devolved nations) is the accuracy with which WHD is being targeted at households with the lowest incomes.

Our analysis suggests that between 40% and 50% of WHD rebates in England currently go to households with incomes below the threshold used for the English fuel poverty indicator. This is because the current scheme was designed before adoption of the LIHC indicator in England, and therefore the way the scheme is currently targeted is not necessarily well aligned with how we now understand and measure the problem.

Even where fuel poor households are captured by the current scheme, support is not always directed towards those who we believe are experiencing the most severe problems, such as larger households with children and those with the lowest levels of disposable income to spend on heating. Our analysis shows that WHD could be directed towards these households with far greater accuracy by designing eligibility criteria to account for household size. In practice, this can be achieved by using more than one income threshold, with higher thresholds for larger households, reflecting that larger households require a higher income in order to achieve the same standard of living.

Data matching

Data matching is already a successful and popular tool in WHD delivery. More than one million low income pensioners currently receive an automatic energy bill discount each winter, without the need to fill out an application and with very low operational overheads for suppliers.

It works by taking Government data on customers in receipt of Pension Credit Guarantee Credit (held by DWP) and matching this with energy supplier customer records. DWP informs the suppliers which of their customers meet the eligibility criteria, and the suppliers then automatically provide these customers with energy bill rebates.

This system of data matching means that most households eligible under the Core Group receive their rebate without having to take any action. As well as providing excellent customer service, this is also a very cost-effective process which ensures the rebate reaches those (particularly the most vulnerable) who might otherwise miss out because they fail to apply. The main alternative to data matching is to put the onus on delivery agents to identify eligible households and provide sufficient evidence that they meet the relevant criteria. This is the approach used for the WHD Broader Group. It is thought that this type of customer identification is significantly more expensive without data matching, with such costs adding to the cost of living through higher energy bills. In comparison, the cost of processing Warm Home Discount Core Group rebates using data matching is under £1 per customer to deliver, compared to costs of up to £30 per customer for the non-automated method.

The data matching which takes place under the WHD Core Group is almost universally popular with stakeholders and we are keen to extend its use. Current data matching under the WHD is limited to people on Pension Credit Guarantee Credit due to the legislation which underpins it.

Welfare changes

Government is making fundamental reforms to the welfare and pension systems to ensure that work and saving pay. This is notably through Universal Credit, which ensures that people are better off in work; the new State Pension, which raises the contributory pension above the basic level of the means test; and automatic enrolment into workplace pensions, which boosts retirement income above the State pension.

Universal Credit is being rolled out in a careful, safe and controlled manner and is already available in over 70 per cent of Jobcentres. By the end of spring 2016, Universal Credit will be available in all Jobcentres across the country. Universal Credit was included in the standard eligibility criteria for the Broader Group for 2015/16 and this will not be affected by the proposals for 2016/17.

The state Pension reforms will begin for people who reach State Pension age on or after April 2016. The new State Pension will radically change the current system, provide clarity about what people can expect and offer a solid foundation for personal retirement saving. The changes will abolish the Savings Credit element of Pension Credit. However, the Guarantee Credit element of Pension Credit will remain, providing support to the lowest income pensioners. This will enable Government to continue to target the lowest income pensioners in receipt of Pension Credit Guarantee Credit through the WHD.

Rationale for energy bill rebates

The effects of energy prices are felt most by those with the lowest disposable incomes, and particularly those who have the overlapping problem of high energy requirements for whom spending on energy necessities already account for a disproportionately high share of their annual outgoings.[2] In 2013, the number of households in fuel poverty under the LIHC definition in England was estimated at around 2.35m, representing approximately 10.4% of all English households. In Scotland, according to the most recent Scottish House Condition Survey, the number of households in fuel poverty in 2014 under the 10% definition was estimated at around 845,000 households, approximately 34.9% of all Scottish households. In Wales, the Fuel Poverty Projection Tool estimated that 386,000 households were in fuel poverty in 2012, which is around 30% of all households in Wales. The Welsh Government is expecting to publish updated estimates for fuel poverty levels later this year.

The long-term solution to reducing energy bills, alleviating fuel poverty and helping offset the impacts of price rises is to make the homes of low income households more energy efficient, primarily by improving the building themselves or the heating systems within them. Through the Energy Company Obligation, households are able to get access to different types of insulation and more efficient heating systems. Energy bill rebates can work effectively alongside other policies to reduce the energy costs of low income and vulnerable people. The 2015 Fuel Poverty Strategy for England showed that energy bill rebates have a role as part of a cost-effective mix of measures to tackle the long-term, structural problem of fuel poverty. Rebates are especially important while a significant proportion of our housing stock remains inefficient, and upgrading it takes time.

As well as reaching millions of people each year, rebates are simple to deliver and consumer friendly. Under the WHD, eligible households can get money off their bills at the time when they need it most, having to take no or very little action to receive it.

The WHD is also consistent with a competitive energy market. By having transparent and consistent rebates, it does not interfere with prices and is simpler for consumers to understand than a system of discounted tariffs. Though the cost of the scheme is passed on by suppliers to domestic energy consumers, on average the impact on energy bills is zero. The WHD has positive distributional benefits because it is targeted at low income households, helping to reduce the effect on them of rising prices.

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[2] Estimated impact of energy and climate change policies on energy prices and bills, DECC, 2013 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/172923/130326_-_Price_and_Bill_Impacts_Report_Final.pdf

Scheme funding

The scheme is funded by participating energy suppliers. There is an advantage to the WHD being supplier-delivered as the recipients receive a direct reduction in their energy bills which has a greater impact on alleviating fuel poverty than increasing incomes by the same amount. However, as a result of this funding method, suppliers pass the costs on to their customers. We estimate that this adds around £13 to the average annual domestic energy bill[3].

The scheme for this Parliament: 2016/17 – 2020/21

Government announced in the Spending Review on 25 November 2015 that the Warm Home Discount scheme would be extended to 2020/21 at current levels of £320m per year, rising with inflation, to help households who are at risk of fuel poverty with their energy bills. This is a clear commitment by Government to the continuation of the scheme over the next Parliament with a clear spending target. The Spending Target for 2016/17 will be £323m. Table 3 below sets out the expected Spending Target over the next five years of the scheme, although the spending profile for future years will depend on expected levels of inflation at the time of setting future years targets.

This spend will help to provide vital support to households with their energy bills. However, this finite support means we need to prioritise and target delivery so that it is focussed on those households in greatest need – i.e. those with the lowest incomes and potentially most vulnerable.

Table 3: Spending Target: 2016/17 – 2020/21

	2016/17	2017/18	2018/19	2019/20	2020/21
Spending Target (£millions)	£323	£329	£336	£342	£349

The Fuel Poverty Strategy for England highlighted the challenge of increasing effective targeting of our Fuel Poverty Schemes. It set out that Government would look for opportunities to extend the use of data matching wherever practical and appropriate. This will improve targeting and maximise the potential for automated identification of fuel poor homes, as well as delivery of any future energy bill support schemes.

The current Warm Home Discount Scheme comes to an end in March 2016. New Regulations are required for the WHD scheme to continue. Government proposes to keep the scheme unchanged for 2016/17 in respect of the Core and Broader Groups, in order to ensure smooth delivery and give industry adequate time to prepare for potential changes in future scheme years. Low income and vulnerable pensioners, who receive Pension Credit Guarantee Credit, would continue to receive the rebate automatically. Low income households will still be able to apply to their suppliers for the Broader Group rebate and, if successful, the rebate will be awarded on a first come first served basis. Government proposes to introduce new Regulations for the scheme so that the scheme continues in its current form in 2016/17.

[3] Estimated impacts of energy and climate change policies on energy prices and bills 2013, DECC, 2014 https://www.gov.uk/government/publications/estimated-impacts-of-energy-and-climate-change-policies-on-energy-prices-and-bills

In the longer term, we will consult on future measures to streamline delivery and to consider whether we can improve the targeting of support towards fuel poor households in greatest need. These improvements would potentially enable us to provide working-age customers and families, currently supported through the Broader Group, with Core Group-style automatic rebates for the first time. We are also exploring options to bring new datasets to bear, including Government-held energy efficiency data, which could pave the way for rebates to be prioritised for those in the coldest homes. This is consistent with the commitments in the Fuel Poverty Strategy for England to target support at Low Income High Costs households and to do so through better use of data.

This form of data sharing would require enabling powers similar to those created in the Pensions Act 2008 for the current WHD Core Group. Some of the required powers already exist under Section 131 of the Welfare Reform Act 2012 (WRA). However, we are seeking to address legislative gaps through new data sharing measures that are currently subject to a separate public consultation led by the Cabinet Office[4]. If successful, it may be possible to introduce enhanced data matching processes from winter 2017/18. Any such changes will be subject to further consultation at a later date.

Devolution

Though the WHD is a GB-wide scheme, fuel poverty policy is devolved and, under the Scotland Act 2016 Scottish Ministers will have the powers to design and implement a fuel poverty scheme supplier obligation for Scotland. Certain aspects of the scheme will remain reserved to the Secretary of State, including the spending target. Scottish Ministers may, however, choose to target the scheme in Scotland differently, based on their specific needs.

Scottish Ministers will be obliged to consult on a future scheme for Scotland and if they were to exercise their devolved powers in 2017 that would coincide with likely further changes to the GB scheme in 2017. However, Scottish Ministers may, for policy, political or practical reasons, want to defer making any changes to the scheme to a later date. If Scottish Ministers were content with the GB scheme and did not wish to implement a scheme for Scotland, a GB-wide scheme would continue to operate in Scotland.

[4] *https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/503905/29-02-16_Data_Legislation_Proposals_-_Con_Doc_-_final__3_.pdf*

Proposals for 2016/17

The Core Group

We want to continue to build on the success of the scheme in providing rebates to a large number of households through effective use of data sharing powers. Over 90% of those who have received a rebate as part of the Core Group received it automatically as a result of data matching. Therefore, we know that the intended recipients have received the rebate. We want to continue to deliver the majority of rebates automatically via the data matching process.

As highlighted above, new data sharing powers have been proposed that would enable automated provision of support to low income working-age households, rather than just those in receipt of pension credits. The new powers may also pave the way for rebates to be prioritised for those in the coldest homes using Government-held housing stock data.

We do not plan to make significant changes to the Core Group until we obtain these powers. On that basis, we propose that the current benefits criteria for the Core Group should be retained in 2016/17, namely:

- customers in receipt of Pension Credit Guarantee Credit (this includes customers who also receive Savings Credit).

Current forecasts are that the number of people in receipt of Pension Credit Guarantee Credit will remain roughly stable between the current and next Scheme year – around 1.5m. Of those, not everyone will be eligible, primarily because they are not electricity account holders.

Everyone on Pension Credit Guarantee Credit will continue to get a Government letter informing them that either their data have been matched and they do not need to do anything further or that they may be eligible but have to contact a call centre to verify their eligibility.

Consultation Question	
1	Do you agree that the Core Group eligibility criteria should be retained for those people in receipt of Pension Credit Guarantee Credit in 2016/17?

The Broader Group

The Broader Group part of the WHD scheme allows other low income and vulnerable households, who do not qualify under the Core Group, to apply for the same value rebate through their supplier. Changes made to the Broader Group for 2015/16 introduced standard eligibility criteria across all participating suppliers, making it more easily accessible to people most likely to be in fuel poverty. Given these changes we do not plan to make further changes for 2016/17.

Consultation Question

2	Do you agree that we should keep the Broader Group element unchanged?

Value of the rebate

When the WHD began in 2011, the value of the rebate was £120. This was based around the average level of support that customers received through suppliers' Voluntary Agreements. It has increased each year, to offset some of the impact of the increases in energy prices, and is currently £140.There was no increase between year 4 and 5 as, following consultation, Government took the decision to retain the level of the rebate to help a greater number of households.

Energy prices have continued to remain broadly stable over the last 2 years and therefore we propose that the level of the rebate should be £140 in 2016/17 in order to enable more households to access the scheme. We will keep this figure under review for future years.

Consultation Question	
3	Do you agree that the value of the rebate should be £140 in 2016/17?

Industry Initiatives

The Industry Initiatives part of the WHD scheme operates to provide fuel poor and vulnerable households with additional assistance with their energy bills beyond the Core Group and Broader Group rebates. We believe that there remains a strong rationale to continue to allow energy suppliers to spend a proportion of their obligation on other forms of support which would benefit fuel poor and vulnerable consumers.

We are consulting on making some changes to the Industry Initiatives element of the scheme to give suppliers flexibility in the services they offer, to make sure the broadest group of customers can be helped in the most effective and efficient manner. We also wish to improve its alignment with our objectives on fuel poverty.

The Fuel Poverty Strategy for England identified a number of areas where we needed to address issues. For example, on targeting, a significant cohort of fuel poor households are not currently identifiable using centralised data driven approaches, including those who do not claim their benefit entitlement. We recognise that this means many of our fuel poverty and energy efficiency schemes do not capture those in fuel poverty who are not on benefits. We want a more joined up approach with the Energy Company Obligation and propose that we adjust and widen the criteria suppliers currently operate within, to include activities that would support households that are not eligible for, or can't be delivered to cost effectively under, an Energy Company Obligation e.g. those in deeply rural areas or who are not in receipt of benefits. We are keen to gather views on whether the current activities are suited to this goal, or if there are other activities that should be included.

One potential option is for suppliers to be able to achieve part of their Industry Initiatives spend through contribution to a central pot of funding, which could then be used to fund innovative approaches to reaching and supporting those in greatest need. Government will explore whether such a funding pot could best be administered by Ofgem. Funding would be competitively allocated to schemes including, for example, innovative or new delivery mechanisms and locally led schemes that would help the fuel poor, with a particular focus on those which would leverage investment from third parties (such as local authorities, businesses or European funding).

These schemes would not be limited to providing rebates, but could be anything which provides effective help to fuel poor and vulnerable consumers, for instance through making improvements to the energy performance of their properties. The administrator of the funding would determine whether the schemes met the Industry Initiatives requirements. Any funding contributed to this pot would be deemed to contribute towards a supplier's Industry Initiative spend for that scheme year, although the money may not be allocated to a project in that same year.

Government anticipates that such an approach would encourage innovative Industry Initiative schemes, and potentially also make compliance easier for smaller suppliers who may not have the resources to set up their own schemes under industry initiatives. We recognise that new innovative schemes can carry more risk to suppliers meeting their spending obligations under the scheme than more established schemes. Such an approach would help to mitigate against the risks identified while helping to bring forward innovation, support local delivery and deliver more effective support to those in fuel poverty.

Consultation Question	
4	Do you think the current range of activities that count as Industry Initiatives represent value for money? Are there any other activities that should qualify as Industry Initiatives that currently do not? Are there any activities that currently count as Industry Initiatives that you think should not? Please provide evidence to support your answers.
5	What are your views on suppliers having the option to achieve part of their Industry Initiatives spend through contribution to a central pot of funding in future years, which could then be used to fund innovative approaches to reaching and supporting those in greatest need?

Debt assistance

The Government proposes to address the high level of expenditure on debt assistance through the Industry Initiatives section of the scheme. Spending on debt assistance has increased from 58% of the total Industry Initiative spend in year 1 to 72% of spend in year 4. In Scheme year 4, although spend was 72% of the total it only equated to 21% of customers being helped.

Government wants to incentivise a more diverse range of activities under the Industry Initiatives element of the scheme. We propose to do this by placing a cap on the proportion of Industry Initiative spend that energy suppliers can spend on debt assistance to encourage more spending on other initiatives. We suggest that a cap on debt assistance would increase the number of customers able to benefit from Industry Initiatives and would widen the type of help customers could access. This move is not unprecedented as during the Voluntary Agreement, participating suppliers were asked by Ofgem to cap their spending on debt assistance to 10% or less of their total Voluntary Agreement spend during each year of the scheme[5].

The Government proposes to cap the total amount spent on debt assistance to 50% of individual supplier's total Industry Initiative spend, subject to the views and evidence gathered in this consultation phase. We are aware that alongside writing off customers' debt, suppliers provide additional support such as energy or debt advice which provides extra benefits to the customer. We propose that the cap on spending on debt assistance should be related to the amount of debt written off and not include these additional activities. We would keep the level of the cap under review for future years of the scheme.

Consultation Question	
6	Do you agree that Government should place a cap on the amount of each supplier's Industry Initiative spend that can be spent on debt assistance? What are your thoughts on the cap being set at 50% of each supplier's Industry Initiative spend in 2016/17?

Park Homes

In Scheme year 5, DECC introduced the option for suppliers to provide rebates to residents in park homes, referred to as mobile homes from now on[6], who do not have an account directly with an energy supplier. A pilot scheme was introduced in autumn 2015 which looked to provide around 1000 rebates to residents of mobile homes who met the Core or Broader Group eligibility criteria. We will review the success of the pilot scheme this year and make necessary adjustments, though we do not anticipate making any changes to the provisions in the Regulations. Should the pilot scheme be popular and effective, we would encourage suppliers to provide more funding in future years.

Operational changes

Flexibility on overspending by suppliers

Under the current scheme there is a provision that allows suppliers flexibility on any overspend in their non-core obligation. If suppliers spent up to 5% more than their non-core obligation in Scheme year 4 then their non-core obligation was reduced by a corresponding amount in Scheme year 5. Government advised suppliers that given the uncertainty around the future scheme, that they should not expect there to be provision to allow carryover of non-core spend from Scheme year 5 into Scheme year 6. We therefore do not plan to include any provision for overspend from suppliers' non-core obligation in Scheme year 5 to reduce their non-core obligation by a corresponding amount for 2016/17 and beyond.

[5] Monitoring suppliers' social programmes, Ofgem, 2011 https://www.ofgem.gov.uk/ofgem-publications/57104/suppliers-social-spend-rCheereport-2010-2011.pdf

[6] Occupier of a mobile home as defined under section 1 of the Mobile Homes Act 1983

Consultation Question	
7	Do you agree that there should be no provision for any overspend to reduce future non-core obligations?

Redemption of Prepayment Meter vouchers

As highlighted earlier in this document, prepayment meter customers receive the rebate in a variety of ways depending on their supplier, ranging from being sent a voucher which they have to redeem, to their card being topped up when they add credit at their usual outlet or if they have a smart meter having it credited directly. Under the current scheme, all pre-payment vouchers or credit energy suppliers sent to customers can be used in order to meet their obligation regardless of whether the voucher or credit is redeemed – this is deemed a provision of the rebate.

However, not all customers redeem their voucher or claim their credit. Anecdotal evidence suggests that on average around 88% of PPM vouchers are redeemed. Customer may not redeem their voucher for a variety of reasons including not opening their post, losing their voucher or forgetting to claim it. There is little that can be done to bring about higher redemption rates though Government suggests that suppliers' spending should reflect that some of the PPM rebates they provide are not claimed. The Government Electricity Rebate has shown that suppliers are able to monitor redemption rates and only claim against their obligation on those vouchers that have been redeemed.

Suppliers receive data on which PPM credits are not claimed and could, therefore, report only on those which have been. Government could adjust how many households it aims to support to take into account that some will not be reached. This would mean that reported spending would match actual spending and the number of people benefitting from rebates. Government proposes to take account of PPM redemption rates when considering whether suppliers have met their obligated spend.

Consultation Question	
8	Should spending targets be adjusted so that actual spending reflects the number of PPM customers benefitting from the rebate?

Timing of the scheme year

The scheme year for the WHD Scheme has been from April to March each year. However, new or amended legislation for the WHD Scheme will not be complete by April 2016 as a result of the timing of the Spending Review announcement and the length of time needed for a consultation and Parliamentary process. We anticipate that Regulations will not come into force before end of July.

Government wants to ensure that the rebate is paid over the winter period at a time when it is needed most. The automated nature of the Core Group payment should enable the rebates to be paid over the winter period before the end of March. For the Broader Group element of the scheme, we recognise that suppliers require a longer lead in time to set up and get approval for their Broader Group. However, given that we do not propose to make any changes to the

Broader Group criteria, they will remain the same as year 5 of the scheme. We therefore expect suppliers to undertake some of the preparation and set up of the scheme before the regulations come into force.

Nevertheless, we recognise that it will be important to ensure energy suppliers are afforded sufficient time in which to meet their obligations. We therefore propose to introduce some flexibility to the end of the year for both the Core Group and Broader Group element of the scheme so that payments can be made up to the end of May 2017. We would however encourage the majority of payment to be made over the winter period. It should be noted that the change in scheme year for 2016/17 would require reporting deadlines to be amended.

In future years, the aim is to return to an April to March scheme year but we look to avoid or mitigate risks around overlap between scheme years.

Consultation Question	
9	Do you foresee any issues with the scheme year for 2016/17 running from August to May?

Industry Initiatives

The Scheme will continue to include the Industry Initiatives element. Government recognises that a number of the initiatives have been running for a number of years and the later start in the scheme year will mean there could be a hiatus in the support provided by these initiatives. Government will therefore provide in the scheme Regulations that in scheme year 2016/17, spending by suppliers on Industry Initiatives from the 1st April 2016 will count towards their obligations, providing the spending is subsequently determined by Ofgem to meet the scheme's requirements.

Consultation Question	
10	Do you foresee any issues or risks associated with allowing suppliers to start Industry Initiative activities before the regulations are in place?

Paying the rebate

Customer feedback on the WHD Scheme has highlighted that some customers would prefer to be able to choose whether the rebate was paid to their gas account or their electricity account (or the ability to split it between the two). This was because their gas bill was typically larger than their electricity bill and, for some, because they wanted to use the rebate to increase their use of heating in a context where gas was their primary heating fuel. For dual fuel customers, where there was one account for their gas and electricity, they typically saw no distinction between their gas and electricity accounts and the rebate was used to pay for future gas or electricity use. We would encourage energy suppliers, where possible, to put the rebate on the gas bill where the customer has both electricity and gas accounts with them. Data matching would still be completed based on the electricity account to ensure that we do not exclude those who do not have gas.

Consultation Question	
11	Do you foresee any issues with suppliers having the option to pay the rebate on customers gas accounts?

Scheme post 2016/17

In the longer term, we will consult on future measures to streamline delivery and to consider whether there are ways to better support fuel poor households in greatest need. This will consider the potential role for any new data matching powers under new legislation, and how the Warm Home Discount and future supplier obligation (currently the Energy Company Obligation) can best work together.

Subject to positive progress on data sharing legislation, Government plans to consult formally later this year on whether these wider data matching powers should be used for a scheme from 2017/18 onwards.

Participation threshold

The current WHD has a simple threshold: all suppliers with 250,000 or more domestic customer accounts on 31 December preceding the next Scheme year have to participate. The threshold was introduced to reduce barriers to growth, recognising that smaller suppliers would be likely to have higher fixed costs per rebate provided. Suppliers can volunteer to participate in the Core Group but none have done so in the five years thus far. We do not propose to make any changes to the threshold for participation in WHD for 2016/17 which means that it would remain at 250,000 domestic customer accounts.

In the longer term, should more data sharing be used, Government could make the scheme as a whole cheaper and easier for suppliers to deliver, significantly reducing administrative costs. In a scenario where all rebates are delivered through data matching, and where the industry initiative component of the scheme offers the option of a simple payment into a central pot, the composition of a supplier's customer base no longer has a bearing on how difficult it is to meet the obligation. Such changes could create a stronger case for reducing the participation threshold to benefit customers and reduce some of the barriers to switching. Government intends to undertake further analysis of the cost implications for the smallest suppliers of participating in the scheme, and plans to consult on any changes later this year. We would however, appreciate views and evidence on whether the participation threshold should be reduced in future, focusing on the costs and benefits of such a change.

Consultation Question	
12	If the scheme is made cheaper to deliver from 2017/18, should the participation threshold be reduced below 250,000 domestic customer accounts? What would be the costs and benefits of such a change?

Next steps

Following this consultation, we will consider responses and plan to publish a Government response setting out the final policy in May 2016. We will then lay Regulations which should come into force in July, subject to Parliamentary process.

These changes are expected to be completed by the end of July 2016, when the new scheme would begin.

Ofgem will also publish guidance consistent with the details of the new policy and the amended Regulations.

Catalogue of consultation questions

Consultation Questions	
1	Do you agree that the Core Group eligibility criteria should be retained for those people in receipt of Pension Credit Guarantee Credit in 2016/17?
2	Do you agree that we should keep the Broader Group element unchanged?
3	Do you agree that the value of the rebate should be £140 in 2016/17?
4	Do you think the current range of activities that count as Industry Initiatives represent value for money? Are there any other activities that should qualify as Industry Initiatives that currently do not? Are there any activities that currently count as Industry Initiatives that you think should not? Please provide evidence to support your answers
5	What are your views on suppliers having the option to achieve part of their Industry Initiatives spend through contribution to a central pot of funding in future years, which could then be used to fund innovative approaches to reaching and supporting those in greatest need.
6	Do you agree that Government should place a cap on the amount of each supplier's Industry Initiative spend that can be spent on debt assistance? What are your thoughts on the cap being set at 50% of each supplier's Industry Initiative spend in 2016/17?
7	Do you agree that there should be no provision for any overspend to reduce future non-core obligations?
8	Should spending targets be adjusted so that actual spending reflects the number of PPM customers benefitting from the rebate?
9	Do you foresee any issues with the scheme year for 2016/17 running from August to May?
10	Do you foresee any issues or risks associated with allowing suppliers to start Industry Initiative activities before the regulations are in place?
11	Do you foresee any issues with suppliers having the option to pay the rebate on customers gas accounts?
12	If the scheme is made cheaper to deliver from 2017/18, should the participation threshold be reduced below 250,000 domestic customer accounts? What would be the costs and benefits of such a change?

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