Department for Business, Energy & Industrial Strategy

Warm Home Discount

Better targeted support from 2022

Closing date: 22 August 2021

June 2021

Any enquiries regarding this publication should be sent to us at the following address, including 'WHD reform consultation' in your email subject: warmhomediscount@beis.gov.uk

Foreword

Over the past year, Government has put in place vital support to help the country face the challenging circumstances of COVID-19. Spending more of our time indoors has highlighted how important for health and wellbeing it is to be able to heat our homes, especially over the winter. We have worked with energy suppliers to create a Voluntary Agreement, under which energy suppliers agreed to support those customers impacted by COVID-19 who may be struggling with the costs of their energy bills. This remains in force today.

As we emerge from the pandemic, it is right that we ensure support is targeted to those most in need, providing them comfort and certainty. That is why we are consulting on proposals to reform the Warm Home Discount scheme, ensuring that, in future, more households who are on low incomes and vulnerable receive help with their energy bills, through automatic rebates.

Energy efficiency is the best and most sustainable method of keeping our houses warm and our energy bills low. That is why this Government remains committed to upgrading the energy efficiency of the UK's domestic buildings, with a particular priority given to supporting those households in greatest need. We shall shortly be consulting on proposed reforms to the Energy Company Obligation on this basis. Today, 1.2 million fewer low-income households are living in the least energy efficient homes (Bands E, F, or G) compared to 2010. Energy efficiency policies will continue to help transform hundreds of thousands of the least efficient homes. In 2019, 47.8% of low-income homes achieved an energy efficiency rating of Band C or higher, up from just 14.6% in 2010. By improving the energy efficiency of our homes, not only will we reduce energy bills for households in the long term, but as a nation also reduce our emissions and help achieve our world-leading carbon reduction targets.

We recognise, however, that upgrading the housing stock will take time. In the meantime, energy bill rebates, delivered through the Warm Home Discount, will continue to be an important part of helping low-income and vulnerable households to heat their homes during winter. Since 2011, the Warm Home Discount has provided over £3 billion in rebates to low-income and vulnerable households. That is why, as outlined in the ambitious Energy White Paper last year, we are proposing to extend and expand the Warm Home Discount until 2026 at least, to complement our other policies.

The increase in spending from £350 million to £475 million per year will mean that around 780,000 more households will receive rebates off their energy bills each winter. Coupled with these reforms, 560,000 more fuel poor households would receive that help. Whilst continuing to protect pensioners on the lowest incomes, the main beneficiaries of these changes would be low-income families with children, who are most likely to be living in the least energy efficient homes and facing the highest incidence and depth of fuel poverty.

The reforms demonstrate the potential that innovation, using Government data, and working with the private sector has to deliver vital services more effectively and increase the support to the most vulnerable. It also demonstrates our commitment to levelling up our society, delivering tangible, vital help to people who struggle to heat their homes.

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General information

Why we are consulting

The Warm Home Discount has been a key policy in the Government's approach to tackling fuel poverty and reducing the energy costs of low-income and vulnerable households ever since its inception in 2011. Since it began, the Warm Home Discount has provided over £3 billion in rebates to low-income and vulnerable households.

The Government committed in the Energy White Paper last year to extending the Warm Home Discount until 2026 at least, expanding the spending envelope from around £350 million to £475 million annually (in 2020 prices), and proposing reforms for improving the targeting of the scheme. Alongside this, the Government has extended the scheme for the 2021/22 scheme year, to allow time to consult on these proposed future reforms.

This consultation sets out the Government's proposals for reforming the scheme in England and Wales, alongside consulting on certain reserved powers with regards to Scotland. We are seeking feedback particularly from the energy sector and fuel poverty charities on the proposals to inform the design of the Warm Home Discount scheme for the period 2022-2026. The Government will take into account the responses and lay regulations in order to ensure a scheme is in place from 2022 onwards.

Consultation details

Issued: 28 June 2021

Respond by: 22 August 2021

Enquiries to:

Please do not send enquiries by post to the department at the moment as we may not be able to access them.

Please email your enquiries to the following address, including 'WHD reform consultation' in your email subject: warmhomediscount@beis.gov.uk

Consultation reference: Warm Home Discount Better targeted support from 2022

Audiences: We would particularly welcome views from energy suppliers and charities focused on fuel poverty, vulnerable people, and costs of living.

Territorial extent: The vast majority of the proposals would apply to England and Wales. Where stated, certain elements would also apply to Scotland. The UK Government will continue to work with the Scottish Government on provisions for a scheme in Scotland.

How to respond

Please respond directly to the questions posed, though additional comments and evidence would also be welcome.

Your response should be submitted online using the dedicated online portal:

Respond online at: [insert Citizen Space link]

Alternatively, please email your responses to the following address, including 'WHD reform consultation' in your email subject.

Email to: warmhomediscount@beis.gov.uk

Please do not send responses by post to the department at the moment as we may not be able to access them.

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018, and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

We will summarise all responses and publish this summary on GOV.UK. The 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 way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Executive summary

This consultation document describes proposals for the extension, expansion, and reform of the Warm Home Discount (WHD) scheme from 2022 to 2026. The WHD began in 2011 with the aim of alleviating fuel poverty. The scheme places an obligation on energy suppliers to provide rebates to the winter energy bills of eligible low-income and vulnerable customers.

In the Energy White Paper published December 2020, the Government committed to extend the scheme until at least 2025/26 and to expand the scheme to reach around 3 million low-income households. From 2022 onwards, the total spending envelope for the scheme will be increased to £475 million (in 2020 prices), to support more households compared to the current scheme. The Government also committed to consult on reforms to the scheme, to improve the targeting of the scheme and help more low-income and vulnerable households as a result. Finally, the Government committed to consult on how the energy supplier thresholds should be removed, to ensure administrative simplicity and consistency and remove associated barriers to switching for customers. This consultation contains proposals on all of these aspects.

The majority of the detailed proposals in this consultation apply to England and Wales only, unless stated otherwise. This decision has been made in anticipation of Scottish Ministers using the devolved powers under the Scotland Act 2016 to develop their own WHD scheme in Scotland and because of differences in the government-held data underpinning these proposed reforms. As outlined in this consultation, we intend to apportion a fair share of the total scheme spending to Scotland and will consult with relevant parties in due course on the remaining reserved powers to enable the implementation of a scheme in Scotland.

The current scheme and the targeting methodology is outlined in the chapter Improving the targeting of the scheme. While we propose to keep the current Core Group unchanged, providing rebates to over one million households in receipt of Pension Credit Guarantee Credit, we propose to reform the current non-core spending obligation. Most notably, we propose to replace the current Broader Group with a new group, Core Group 2, whose beneficiaries would be primarily identified as eligible and provided with energy bill rebates automatically. This would involve combining government data from the Department for Work and Pensions, HMRC, and Valuation Office Agency with energy suppliers to identify households on low incomes with high energy costs. Whereas current Broader Group eligibility differs between energy suppliers and households have to apply each scheme year for a rebate, the proposed Core Group 2 would allow energy suppliers to provide rebates automatically to their customers through data matching. This would provide rebate beneficiaries a degree of certainty over their eligibility each year. Government would determine the high energy-cost eligibility under the Core Group 2 by setting a threshold towards the start of the first scheme year, with any households identified as low-income whose energy costs meet or exceed this threshold being eligible for a rebate.

As a result of the expansion of spending and the proposed reforms, an estimated 780,000 more households and 560,000 additional fuel poor households would receive rebates each year in England and Wales. Whilst we would continue to protect pensioners on the lowest incomes, the main beneficiaries of the changes would be low-income working age households with children. There would also be a redistribution of rebates to those living in the deepest fuel poverty and in lower income deciles compared to the current scheme. Linking eligibility with receipt of means-tested benefits and having high energy costs would mean that some current recipients of Broader Group rebates would be ineligible under the future proposals. This document therefore discusses the impacts on the demographic most affected by this reform, households with an individual on disability benefits, and a proposed mitigation to support those most in need.

The process for automatically identifying eligible households for the new Core Group 2 is outlined in the chapter Data matching and sweep-up. We are proposing a route for people to provide alternative evidence where Government does not hold sufficient data or where they wish to challenge the data we have used. Admissible evidence would include publicly available data from Energy Performance Certificates, where they exist, and Land Registry data. This route is modelled on the existing helpline where Pension Credit Guarantee Credit recipients may call to verify their eligibility for a Core Group rebate.

The spending targets for the three components of the scheme – Core Group 1, Core Group 2, and Industry Initiatives – are outlined in the chapter Overall spending targets. The rebates have been worth £140 per household per year since 2014. We propose to increase the size of the individual rebates to £150, balancing the estimated increased policy costs with the intent to ensure rebates can support as many households as possible. In order to manage the overall spending target and offset underspend and overspends each year, we propose a series of financial adjustments for Industry Initiatives. These adjustments would be limited to £10 million increases and decreases in any scheme year, allowing us to respond to increases or decreases in the Core Group 1 and Core Group 2 rebates between years, whilst also providing a degree of certainty about the size of suppliers' Industry Initiative obligations.

The scheme year would continue to run from 1 April until 31 March the following year, though we expect the majority of rebates to be provided during the winter months, when support with the costs of heating is needed the most.

Recognising the value of Industry Initiatives and their ability to support households through other financial and non-financial means, we are proposing that spending on them would become mandatory for suppliers, with a target spend of approximately £40 million in 2022/23 and rising thereafter. We are proposing some changes to the activities permitted and required under Industry Initiatives, notably: introducing a minimum obligation for providing customers with financial assistance, in addition to a cap; focussing debt relief support towards people on pre-payment meters at risk of self-disconnecting; and limiting the amount of boiler replacements suppliers can undertake in any scheme year. These proposals are outlined in the chapter Industry Initiatives.

Currently, the obligation threshold is set at 150,000 domestic customer accounts for participation in the WHD scheme, and 250,000 for incurring non-core obligations (Broader Group and Industry Initiatives). As outlined in the chapter Supplier participation, we propose to reduce the threshold for full scheme participation to 50,000 domestic customer accounts across Great Britain for the 2022/23 scheme year, and to 1,000 accounts from 2023/24 onwards. Ofgem would be empowered to review and approve applications from voluntary suppliers to be participants in the WHD scheme.

Finally, as outlined in the chapter Administration of the scheme, Ofgem would remain the administrator for the spending reconciliation under the scheme, reflecting Ofgem's effective and efficient operation of the mechanism throughout the life of the WHD scheme thus far.

Following this eight-week-long consultation, the Government intends to publish a response in winter 2021/22 reflecting the feedback received, and lay regulations in time for any of these proposals to be carried forward to come into force for the 2022/23 scheme year.

Regional coverage

Since it began in 2011, the WHD scheme has covered Great Britain, with the policy being identical across England, Wales, and Scotland.[1] On 1 December 2017, many of the powers to make regulations for the WHD were transferred to Scottish Ministers by the Scotland Act 2016. These include powers to decide rules about the eligibility criteria for the WHD in Scotland and the types of support provided, including the size of individual rebates provided to customers in Scotland. Scottish Ministers may therefore choose to design a different scheme, for instance in line with Scotland's priorities and to reflect different characteristics across Scotland's housing stock, notably a higher proportion of homes off the gas grid.

The proposals in this document cannot be implemented in the same way in Scotland because the Valuation Office Agency (VOA) data that we propose to rely on to identify high energy costs is only available in England and Wales. Scottish assessors, of which there are 14, collect and own data on building characteristics in a different form from VOA data.

Therefore, the proposals in this document are written and quantified on the assumption that they would apply in full to England and Wales only, unless stated otherwise, and we would delegate a fair, proportionate amount of the total WHD spending envelope to Scottish Ministers for the delivery of their own scheme in Scotland. This is outlined in section Spending targets.

Some aspects of the WHD remain reserved to the Secretary of State for the Department of Business, Energy and Industrial Strategy under the Scotland Act 2016, and the Secretary of State must approve any WHD scheme in Scotland. In this consultation, proposals related to Scotland are limited to the following reserved areas: overall spending targets and overspend and underspend provisions relating to the 2021/22 scheme year. We will continue to work with the Scottish Government in assisting with the implementation of a scheme for Scotland and consult at a later point with relevant stakeholders on those further reserve powers required to enable a scheme to operate in Scotland, such as supplier participation thresholds and how supplier obligations are determined, up to 2025/26 or for as long as the WHD scheme operates in England and Wales.

[1] The WHD does not extend to Northern Ireland, where the structure of the electricity and gas supply markets is different.

Improving the targeting of the scheme

The current scheme

The Warm Home Discount started in 2011 and has been a vital source of help with energy bills to millions of low-income and vulnerable people ever since. After ten years of operation, and going into its eleventh year, close to £3 billion has been spent in helping over 2 million households each year. The vast majority of that help has come in the form of £140 rebates taken directly off electricity bills.

Currently, energy suppliers over a certain size – 150,000 domestic customer accounts – are obligated to deliver the scheme, worth £354 million in 2021/22. The regulations for this scheme year recently came into force, extending the current scheme until March 2022.

The policy is efficient at delivering meaningful help on a large scale. This consultation focuses on extending, expanding, and reforming the scheme from 2022/23 until 2025/26.

Currently, the Warm Home Discount is made up of three parts:

- **The Core Group**: over 1 million households in receipt of Pension Credit Guarantee Credit receive £140 electricity bill rebates. The majority receive the rebates automatically as a result of data matching between energy suppliers and the Department for Work and Pensions (DWP), while the remainder are encouraged to call a government-procured helpline to verify their eligibility and claim a rebate;
- **The Broader Group**: over one million households apply to their energy supplier for a rebate; these are usually families on working age benefits. Mandatory eligibility criteria are set in regulations, although energy suppliers can and do expand the criteria, with Ofgem's approval. Successful applicants who meet the eligibility criteria receive £140 electricity bill rebates; and
- **Industry Initiatives**: energy suppliers can spend up to £40 million in total on projects which help households in need, reducing their Broader Group obligation. These projects include financial and non-financial support, including financial assistance, benefit entitlement checks, energy efficiency measures, fuel vouchers, and energy and financial advice. These types of activities are specified in the regulations.

There are a number of drawbacks with the current design of the scheme. Some of the main issues are outlined below, which the proposed reforms seek to address:

- **Low fuel poverty targeting**: BEIS modelling suggests only around 37% of WHD recipients are fuel poor, split into 28% for the Core Group and 47% for the Broader Group;[2]

[2] Fuel poverty rates are modelled using the Low Income Low Energy Efficiency (LILEE) metric. Further details can be found below in Fuel poverty targeting methodology.

- **Lottery of support**: Broader Group households have to apply to their energy supplier to check their eligibility under the Broader Group, which with its limited funding means rebates are generally allocated on a first-come, first-serve basis. Customers may not be aware of their entitlement or may apply too late in the scheme year, at which point suppliers may no longer be accepting new applications;
- **Variable criteria**: Criteria for the Broader Group differ between energy suppliers, as suppliers can seek to include additional criteria with Ofgem's approval. This creates a disincentive for customers to switch suppliers to find the cheapest tariff, as they may no longer be eligible under a new supplier's criteria;
- **Market barriers**: The supplier threshold means that customers can lose their WHD eligibility if they switch to non-participating suppliers or suppliers with different Broader Group criteria. Meanwhile, non-participating suppliers may have a competitive advantage as they and their customers do not bear the costs of participating in the WHD scheme. The threshold had been originally introduced to ensure that the administrative requirements and costs of meeting the WHD obligations do not pose a disproportionate burden for smaller suppliers and create an additional barrier to entry into the energy market for new suppliers.

Expanding the scheme by around 780,000 households

We want more households to be able to benefit from rebates each winter. As committed in the Energy White Paper last year,[3] the WHD scheme will be expanded so that up to 3 million households across Great Britain could receive rebates each year; in England and Wales, this translates to 2.7 million households. This will be achieved by increasing the overall value of the scheme to £475 million (in 2020 prices) and rising with inflation. This additional £125 million would represent approximately £117 million for England and Wales in 2022 in nominal prices.

As the rebates are financed by energy suppliers who pass the costs onto their customers, we model that this would increase the average energy bill for participating suppliers' customers by £5 per year. However, as the WHD rebates are designed to reach those on the lowest incomes and with the highest energy costs, and given other price protections in place such as the energy price cap,[4] we believe this is an acceptable price to pay for providing help to an additional 780,000 households in or at most risk of fuel poverty in England and Wales.

As outlined in section Rebate size, we are proposing to increase the size of household rebates from £140 a year to £150 a year. The analysis of the impact of the reform proposals is therefore based on the assumption that individual rebates are set at this level.

[3] Energy white paper: Powering our net zero future (2020), https://www.gov.uk/government/publications/energy-white-paper-powering-our-net-zero-future

[4] The Domestic Gas and Electricity (Tariff Cap) Act 2018 specifies that the cap can be extended each year if the Secretary of State determines the conditions for effective competition are not present, but not beyond the end of 2023.

Simpler and better targeted

Whilst the current Warm Home Discount scheme works well, there is room for improvement.

The scheme is the first of its kind to use government data so that energy suppliers can provide rebates directly to a subset of their customers. This has enabled the vast majority of Core Group beneficiaries to receive their rebates automatically, without having to call a helpline; in 2019/20, 96% received their rebates automatically.[5]

We are proposing to expand and improve the use of data. Data-sharing powers under the Digital Economy Act 2017 enable access to more data for identifying more households in fuel poverty. We propose to match property data held by the VOA with means-tested benefits and Tax Credit data held by DWP and HMRC to identify those on low incomes most likely living in homes which are expensive to heat. Further data sharing then enables energy suppliers to be notified of those customers who must receive an automatic rebate. Further details on this can be found under the section Data matching and sweep-up.

The outcome of the proposals in England and Wales would result in the following:

- The Core Group, renamed Core Group 1, would remain the same as it is now, limited to those who are or whose partners are in receipt of the Pension Credit Guarantee Credit. We want to continue to protect pensioners on the lowest incomes;
- The Broader Group would be replaced by a new Core Group 2. Government would instruct suppliers to provide rebates automatically to low-income households that the Government identifies as most likely to have high heating costs; and
- Industry Initiatives would be bolstered by a mandatory spending target that absorbs inflationary increases. Industry Initiatives have improved over time and have proven to be an invaluable form of support for those most in need.

The reforms to the scheme should increase the fuel poverty targeting rate from 37% under the current scheme to 47%. We estimate that the additional spending and replacement of the Broader Group with the Core Group 2 would lead to an estimated 560,000 more fuel poor households receiving rebates than under the current scheme, with the biggest beneficiaries of the reforms being families with children.

Safeguarding the current Core Group

We propose to keep the current rules in relation to the Core Group unchanged. Pensioners are a vulnerable group susceptible to the effects of living in a cold home; excess winter fuel deaths mostly affect the elderly and those over the age of 75 in particular.[6] They also tend to heat their

[5] Ofgem, Warm Home Discount Annual Report: Scheme Year 9, https://www.ofgem.gov.uk/environmental-programmes/social-programmes/warm-home-discount/warm-home-discount-reports-and-statistics
[6] ONS Excess winter deaths: https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/excesswintermortalityinenglandandwales/2018to2019provisionaland2017to2018final#excess-winter-mortality-by-sex-and-age

homes for longer. Therefore, whilst the fuel poverty rate amongst households with older people is lower than the national average, there remains a clear rationale for maintaining the current Core Group support.

As a result, around one million Pension Credit Guarantee Credit recipients would continue to receive the energy bill rebate automatically. This would protect pensioners on the lowest incomes for whom the WHD rebates provide a reliable form of support over the winter months.

Replacing the Broader Group with Core Group 2

Current Broader Group

Under the current scheme, funding for the Broader Group is limited and administered by energy suppliers on a first-come, first-served basis. The onus is on the customer to apply, which may disadvantage the most vulnerable. Many people who are struggling to pay their energy bills may be eligible for the discount without realising it, or do not apply in time.

Government sets the mandatory criteria which suppliers can expand on, with Ofgem's approval. Under the current Broader Group, the mandatory criteria include receipt of means-tested benefits and Tax Credits to identify low-income households. The mandatory criteria also include various additional requirements to identify those more likely to be vulnerable to cold homes, including disability, young children, and pension premiums. Suppliers can introduce additional criteria, subject to approval from Ofgem, though the beneficiaries must be both on a low income and vulnerable, or wholly or mainly be living in fuel poverty.

While over one million receive the rebate under the Broader Group, the eligible pool can be significantly higher, depending on the additional criteria energy suppliers use. We estimate around 47% of recipients are fuel poor. This low fuel poverty targeting is mainly due to the current eligibility being based on proxies for low income (receipt of certain benefits) without taking into account household energy costs, a key component of fuel poverty.

Fuel poverty targeting methodology

A household in England and Wales is defined as being in fuel poverty if the occupier lives on a lower income and the home cannot be kept warm at reasonable cost.[7] This definition has not changed, but the Government has introduced an updated metric to better track progress against the statutory fuel poverty target in England.[8]

The new metric, Low Income Low Energy Efficiency (LILEE), replaces the previous metric of Low Income, High Cost (LIHC). LILEE classes a household as fuel poor if it:

[7] Warm Homes and Energy Conservation Act 2000 http://www.legislation.gov.uk/ukpga/2000/31/section/1
[8] Sustainable warmth: protecting vulnerable households in England https://www.gov.uk/government/publications/sustainable-warmth-protecting-vulnerable-households-in-england

- has a residual disposable income after housing costs and energy needs below the poverty line;[9] and
- lives in a property that has an energy efficiency rating below Band C.[10]

LILEE and LIHC are intrinsically linked as the vast majority of households (88%) that are defined as fuel poor under the LIHC measure are also defined as fuel poor under LILEE. Whilst the proposed WHD reforms are not based on energy efficiency ratings, the outcomes would be consistent with the new LILEE metric.

The Welsh Government has its own metric for measuring fuel poverty: a person is in fuel poverty if they have to spend more than 10% on their income to heat their home satisfactorily, and in severe fuel poverty if this figure is more than 20%.[11] Scotland defines a household as fuel poor if more than 10% of their net income after housing costs is spent on fuel and their residual income after further adjustments is considered insufficient to maintain an acceptable standard of living.[12]

For the purposes of this consultation and associated Impact Assessment, we will only assess fuel poverty according to the LILEE.

The fuel poverty targeting approach for the Core Group 2 would prioritise rebates to low-income households that are more likely to have high energy costs and therefore most in need of support with energy bills. We would apply criteria to identify those households which are low income and those who are likely to have the highest energy costs from within that group. The use of high energy costs in combination with benefits data for determining eligibility for rebates has the benefit of focusing support towards those on low incomes with larger outgoings on energy. Property characteristic data can be used to estimate likely high energy costs and provide more exact estimates than, for instance, energy efficiency ratings, and thereby enable comparisons with other households and against a high-energy-cost threshold. We would not link the high-energy-costs eligibility to energy efficiency ratings as Energy Performance Certifications (EPCs) are not available for every household in England and Wales.

Determining low-income households

For Core Group 2, a household in receipt of certain means-tested benefits and income-capped Tax Credits would be deemed as low income. The customer of the electricity supplier or their partner may be the recipient of the qualifying benefit. These benefits would include both unemployment and in-work benefits, as well as the Pension Credit Savings Credit, to enable low-income pensioners not in the current Core Group to be considered under Core Group 2 eligibility. We would no longer apply additional, non-means tested criteria as a proxy for

[9] Defined as an equivalised household disposable income of less than 60% of the national median. https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/persistentpovertyintheukandeu/2017

[10] As determined by the most up-to-date Fuel Poverty Energy Efficiency Rating Methodology (FPEER) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/332236/fpeer_methodology.pdf

[11] Fuel poverty estimates for Wales: 2018, https://gov.wales/fuel-poverty-estimates-wales-2018

[12] Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019, https://www.legislation.gov.uk/asp/2019/10/enacted

vulnerability to cold homes, as doing so would dampen the fuel poverty targeting rate of the scheme.

Currently, we do not have access to household income data for all benefit recipients, so we intend to use two approaches to establish low-income eligibility, using DWP and HMRC data:

- Employment and Support Allowance, Jobseeker's Allowance, Income Support, Universal Credit, and Pension Credit Savings Credit: receipt of the benefit would be sufficient to be considered low income;
- Tax Credits: only households below an income threshold could be eligible. As explained in the table, the threshold would take into account the composition of the household.

Once Universal Credit replaces Tax Credits as well as other benefits, expected by 2025/26, receipt of Universal Credit would be sufficient to be considered low income under these reforms without the application of a household earnings threshold.[13]

Table 1 summarises the low-income eligibility criteria for the current Broader Group and proposed Core Group 2.

[13] This is mainly to avoid the situation where those who are currently eligible for a rebate as a result of being in receipt of another eligible benefit then miss out on the rebate when they move onto Universal Credit.

Table 1 WHD low-income eligibility criteria under current and reformed scheme

	Core Group	Broader Group (i)
Current scheme low-income eligibility rules	Pension Credit Guarantee Credit (PCGC)	Income related Employment and Support Allowance (ii) Income based Jobseeker's Allowance (ii) Income Support (ii) Universal Credit (ii) Child Tax Credit (ii)
	Core Group 1	**Core Group 2 (iii)**
Proposed scheme low-income eligibility rules under reform	PCGC	Income related Employment and Support Allowance Income based Jobseeker's Allowance Income Support Universal Credit Child Tax Credits (iv) Working Tax Credits (iv) Pension Credit Savings Credit (PCSC) but not PCGC

(i) The supplier sets the eligibility criteria for the provision of rebates, subject to Ofgem approval. However, beneficiaries must wholly or mainly be living in fuel poverty or in a fuel poverty risk group and the criteria must at least include persons in receipt of the benefits listed above.

(ii) Further mandatory eligibility criteria apply in addition to the base requirement to be in receipt of the relevant benefit, such as requirements to have parental responsibility for a child under 5 or to be in receipt of a particular disability, pensioner, or other element of the benefit. We do not propose to keep these additional criteria for Core Group 2.

(iii) These means-tested and income-related benefits comprise the low-income criteria. Low-income households are then subject to the high energy cost criteria, explained below.

(iv) Households in receipt of these Tax Credits must be below a household income threshold, adjusted according to household composition ('equivalisation'). The detail of these thresholds would be consulted on in a later statement of eligibility.

Determining households with high energy costs

Using property characteristic data

In addition to establishing whether a household is low income, we propose using Government data on property characteristics to identify those low-income households likely to have high energy costs.

Currently, there is no national dataset for households' heating costs. In developing this approach, we have considered a range of available data and the property characteristics most suitable as proxies for high energy costs. We therefore propose to estimate whether a household has high costs using the type, age, and size of their home.

Whilst using additional property characteristics could improve our heating cost estimation further, we propose to use these three property characteristics for the reasons set out further below, including considerations of coverage, consistency, and fairness. Our analysis has shown that these three characteristics can adequately estimate the likely costs of heating a home whilst maintaining relative simplicity. They are also likely to be correlated to the lowest EPC bands.

- **Floor area:** Greater floor area leads to higher energy costs. Those with low incomes in larger properties will face greater challenges meeting their high energy needs;
- **Property age** is also a strong indicator of energy requirements. The most recent fuel poverty statistics show that the older the property, the higher the rate of fuel poverty and average fuel poverty gaps. Nearly a third of all fuel-poor households live in properties built before 1919.[14] This is likely due to older properties having lower than average energy efficiency rating and higher than average floor area. This trend broadly correlates to the decreasing energy costs in more recently built properties; and
- **Property type** is another strong indicator of high energy requirements. For example, detached houses are more costly to heat, mainly due to having more external walls and the properties being larger.[15]

The VOA holds data on these three property characteristics for the vast majority of the whole housing stock in England and Wales. We were guided by the following principles in selecting which data to use to identify high-energy-cost homes:

- **Coverage** – It is important that datasets cover the whole housing stock to ensure households can be accurately identified and prioritised according to a consistent set of criteria. The VOA dataset covers the whole of England and Wales. By contrast, EPC data is available for only around 50-60% of residential properties;[16]
- **Simplicity –** The three property characteristics (age, type, floor area) improve the targeting accuracy whilst retaining simplicity of communication;

[14] https://www.gov.uk/government/collections/fuel-poverty-statistics#2019-statistics
[15] Detached properties are 120m² on average whilst semi-detached properties are 80m².
[16] https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/energyefficiencyofhousinginenglandandwales/2020-09-23#coverage-of-energy-performance-certificate-data

- **Robustness** – It is a statutory requirement of the VOA to maintain accurate valuation lists for Council Tax purposes.[17] Local authorities notify the VOA if a property has been altered. If a property has been sold, the VOA may update the property data based on research using a variety of sources.[18] In contrast, EPCs are based on estimates made by assessors and there is no requirement to update EPCs based on changes to a property. Furthermore, EPCs are currently valid for 10 years and so risk becoming out of date. EPCs take into account information available to the EPC assessor at the time of the assessment, and changes to auditing practices since EPCs were first brought in may result in a variation in quality between older and newer EPCs;
- **Consistency and fairness** – We considered using a combination of datasets, such as VOA and EPCs, as well as other property characteristics. However, differences in definitions used between the different datasets (especially for floor area and age), in addition to EPC data not being available for all homes, would have made the combination and comparisons of the datasets unreliable on a national scale. We do not propose including data such as levels of insulation, fuel type, and heating systems because reliable, national data does not exist for those criteria.

We would consult separately on the detailed high-energy-cost eligibility criteria in a statement of eligibility issued by the Secretary of State. This would take place closer to the start of the scheme year and the first data matching with energy suppliers.

Predicting energy costs

The methodology for predicting household energy costs would use a statistical model, a linear regression model, based on the property characteristics data for type, age, and size.[19] We recognise that these are predicted costs based on the building and do not take into account the behaviour of its occupants. This notional prediction is consistent with how we assess whether someone is in fuel poverty; some people may have low energy costs in practice because they heat their home less than we predict through choice or lack of money, whilst others will have higher than predicted costs due to their behaviour, choices, and needs.

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[17] An assessment of the quality of VOA data was carried out by the ONS: https://www.gov.uk/government/publications/quality-assurance-of-administrative-data-in-the-uk-house-price-index/valuation-office-agency-council-tax-valuation-lists.

[18] VOA makes every effort to ensure the accuracy of the data used; however, they only collect data that is needed to place an accurate council tax band on the property. Property attribute data is only updated where information comes to VOA's attention that a valuation list entry might be inaccurate. A property that is subject to improvements cannot have its band reviewed and will not be updated on the VOA systems until the property has been sold. Following the sale of the property, if the alterations to the property do not change the Council Tax banding, the property data may not be updated. We consider VOA data for property age and type will be accurate, while floor area changes (e.g. house extensions) that might have happened since a property was sold and the VOA record updated would be mitigated by the use of eligibility bands (e.g. 100-110sqm) rather than single figures. We consider changes to a property's floor area to be small in volume for our low-income cohort. We would also allow customers to challenge the data used and provide more accurate data – see Sweep-up process further below.

[19] Linear regression is a statistical technique which finds the relationships between each input variable and the variable (in this case, energy cost) being predicted. For example, each additional square meter of floor area will increase the predicted energy cost by a certain amount. Once these relationships have been found with the input data, the linear regression can be applied to data on other properties to predict their energy costs. More detail on the regression model is included in the Impact Assessment (BEIS010(C)-21-EEL).

There could also be instances where our prediction of the notional energy costs is inaccurate. This could be because:

- The data is not complete for the property (e.g. some of the criteria are missing);
- The data is inaccurate for that property; or
- Statistical models are not perfectly predictive.

However, differences between observed and predicted fuel expenditure should be relatively small in most cases. The high-energy-cost criteria and model can predict fuel expenditure which is accurate to within 10% in half of cases, to within 20% in 80% of cases, and within 50% in almost all cases.

We have tested the targeting results on real data in the English Housing Survey dataset, which has demonstrated that in practice the model enables us to significantly increase the number of fuel poor rebate recipients. The proportion of fuel poor households targeted in Core Group 2 is expected to increase from the current 47% of the Broader Group to 59% of the Core Group 2 as a consequence of introducing the high-energy-cost criteria.

The proposed reforms and methodology would not be perfectly predictive of fuel poverty. Nevertheless, we believe that this would be the best outcome we can achieve with the available data and would be a substantial improvement on the current scheme.

Prioritising households with the highest energy costs

The Secretary of State would set a ‘high energy cost’ threshold and consult on a policy statement of eligibility in advance of the data matching for the first scheme year of the reformed scheme. Factors the Government may take into account when setting this high-energy-cost threshold would include but not be limited to:

- The overall desired level of WHD spending;
- The number of households in receipt of the relevant benefits and Tax Credits;
- The assumed data-matching success rate with energy suppliers; and
- Assumptions on how many additional households may claim a rebate through the Helpline (the ‘sweep-up’ process).

Low-income households would be ranked by heating cost and those that meet or exceed the threshold would form the Core Group 2. This would ensure that those low-income households with the highest energy costs are prioritised for rebates.

The Government does not intend to change this threshold between scheme years, to provide households with a degree of certainty over whether they qualify for the rebate. However, as outlined below in Overspending and underspending provisions, if the scheme regularly exceeds or falls short of the overall spending envelope, the Government may adjust this high-energy-cost threshold.

Outcomes

These reforms of the WHD in England and Wales would result in a range of benefits, namely:

- Around 59% of Core Group 2 would be fuel poor compared to around 47% for the current Broader Group;
- We would reach around 780,000 additional households and increase the number of fuel poor recipients by around 560,000, from around 700,000 to over 1.2 million;[20]
- Eligible households would be entitled to receive the rebate automatically rather than having to apply;
- Suppliers' administration costs (which they pass onto consumers) would be reduced by around £4 million per year;
- It would make it easier to lower the participation threshold to include smaller suppliers in the scheme; and
- Overall, the rebates would be better targeted towards those in fuel poverty and those more likely to be in deeper fuel poverty.

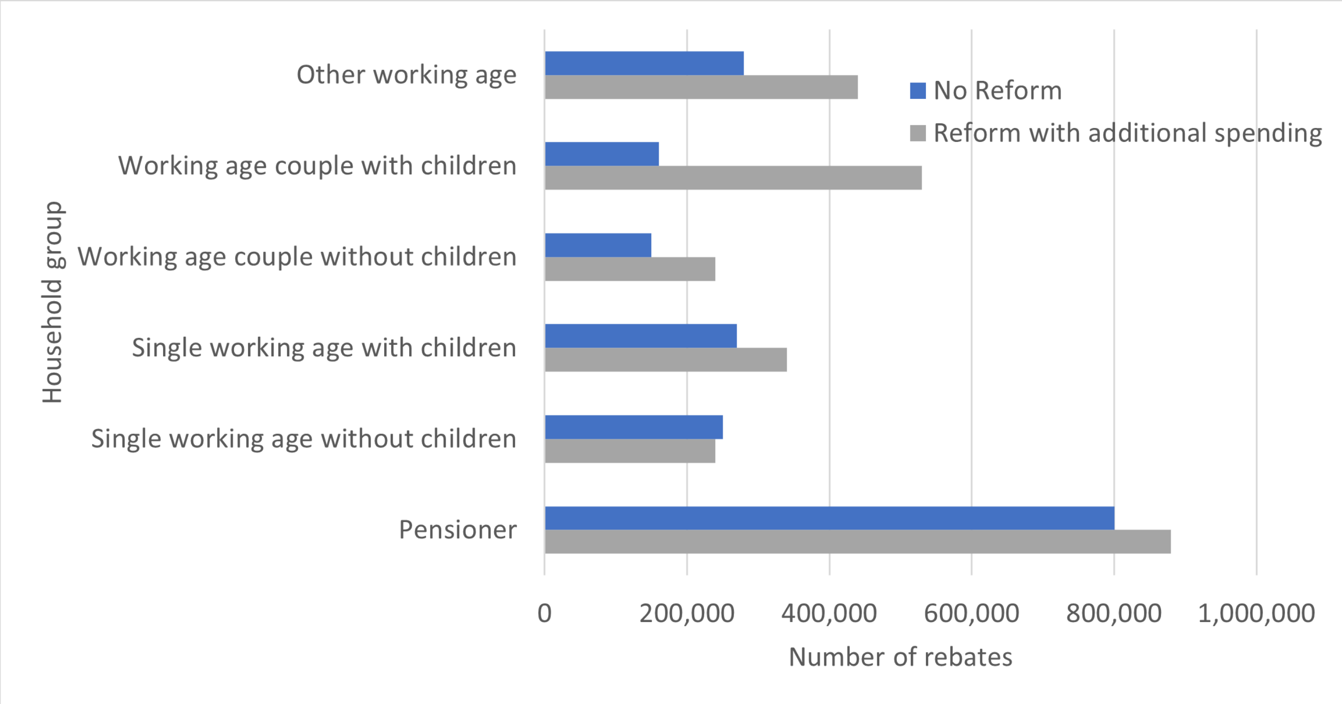
Distributional impacts

Figures relating to fuel poverty rates among demographics and the wider population are taken from the 2019 Fuel Poverty Statistics.[21]

Estimated impacts per demographic group are shown in Figure 1 below.[22] Under these proposals, more working-age households with children would receive rebates; this demographic group has the highest fuel poverty rate and highest fuel poverty gap, representing over 40% of fuel poor households despite constituting only 28% of all households. As illustrated in Figure 1, around an estimated 870,000 working age families with children would receive the rebate compared to 430,000 currently.

[20] These figures compare the estimated number of fuel poor recipients across both the current Core Group and Broader Group with the proposed Core Group 1 and Core Group 2.
[21] Fuel poverty statistics, https://www.gov.uk/government/collections/fuel-poverty-statistics#2019-statistics
[22] All the Figures and analysis in this section relate to England and Wales only. Figure 1 provides an indication of the distribution of rebates under a reformed scheme compared to the previous scheme. Figures on the current Broader Group recipients should be caveated as these are modelled on the mandatory criteria only. In practice, recipients include a wider range of benefit recipients beyond those included in the mandatory criteria, as most energy suppliers have added further eligibility criteria approved by Ofgem. Also, given the current first-come first-served application-based system, the Broader Group is not a consistent group; evidence from suppliers is that in any one year around 50% of those receiving a rebate would have received a rebate the previous year, going down to around 30% over two years.

Figure 1 Number of rebates by socio-demographic group under the proposed reform compared to the current scheme (winter 2022/23)[23]

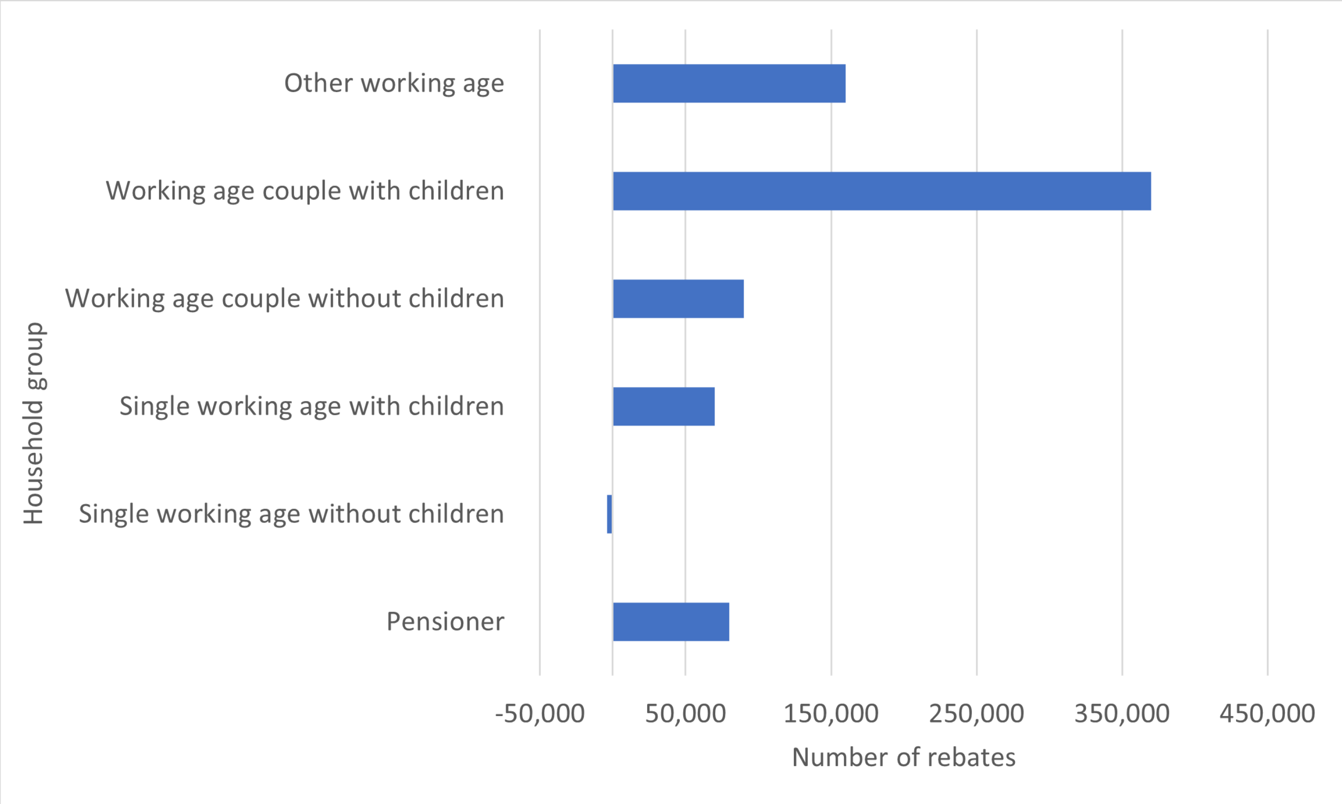


Source: Analysis of English Housing Survey 2017/18 and Fuel Poverty dataset 2018

There would be a large increase in working-age recipients, as per Figure 2. The number of pensioner recipients would also increase as a result of maintaining the current Core Group and including Pension Credit Savings Credit (PCSC) in the low-income eligibility criteria for a new Core Group 2.

[23] Figures estimated based on English Housing Survey (EHS) and Fuel Poverty dataset 2017/18. As Core Group/Core Group 1 eligibility has not changed, this has remained the same. Under the Broader Group, rebates have been distributed randomly based on the mandatory criteria. Under Core Group 2, rebates were distributed based on estimated heating costs (using EHS data) in descending order with an increased rebate caseload.

Figure 2 Change in rebate distribution by socio-demographic group, from current scheme to reformed scheme with increased £125 million spend (in 2020 prices)



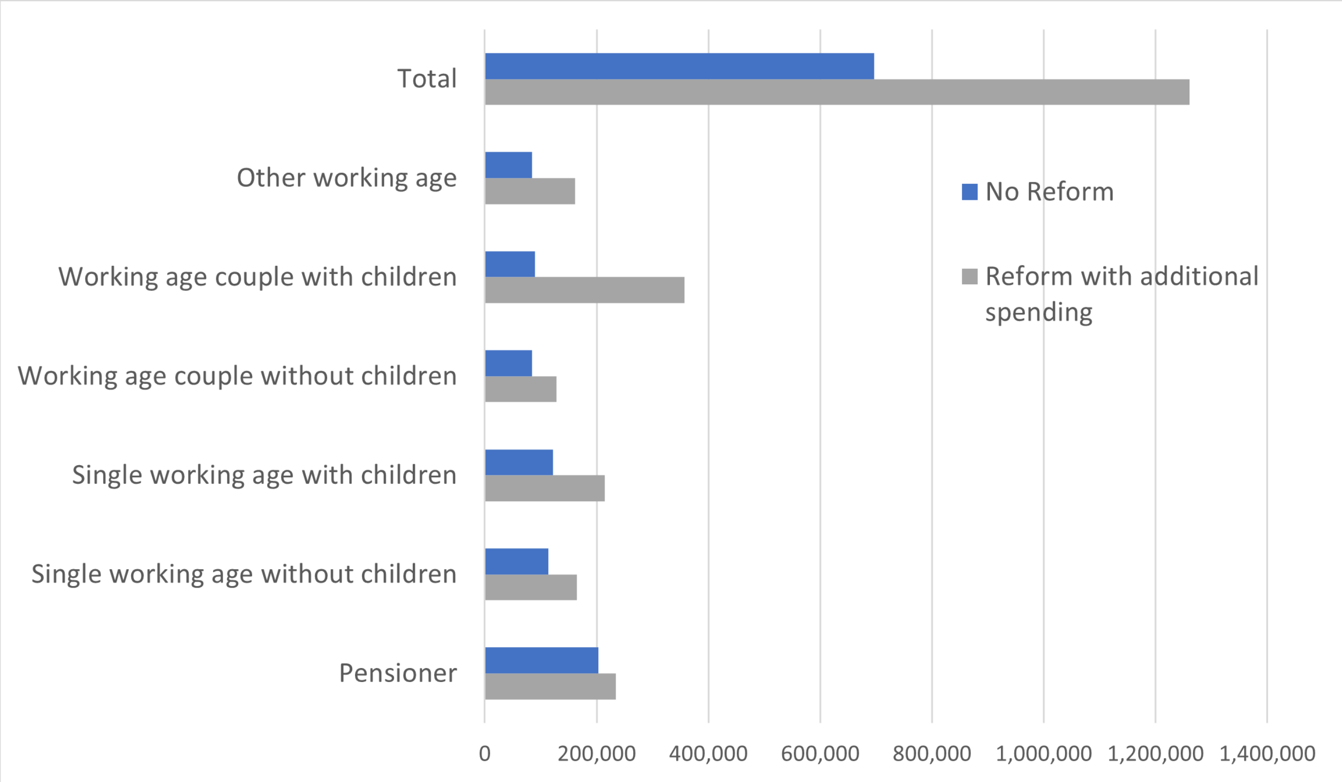
Source: Analysis of English Housing Survey 2017/18 and Fuel Poverty dataset 2018

Overall, due to the £125 million increased overall funding,[24] there would be an increase in the number of recipients in most socio-demographic groups (Figure 2) with a redistribution towards fuel-poor households (Figure 3).

Whilst some fuel-poor households may no longer be eligible for the rebate, and some households may become fuel poor as a result, overall, they are likely to be replaced by households in deeper fuel poverty. These households may still be eligible for support under Industry Initiatives run by energy suppliers and third-party organisations. Overall, many more households in deeper fuel poverty would be guaranteed a rebate automatically, whilst previously they would have had to apply for a rebate under the Broader Group with no certainty of getting one.

[24] Estimated to be around £117 million in 2022 prices for England and Wales.

Figure 3 Number of rebates for fuel poor households (by household group) under the proposed reform compared to the current scheme (Winter 2022/23)



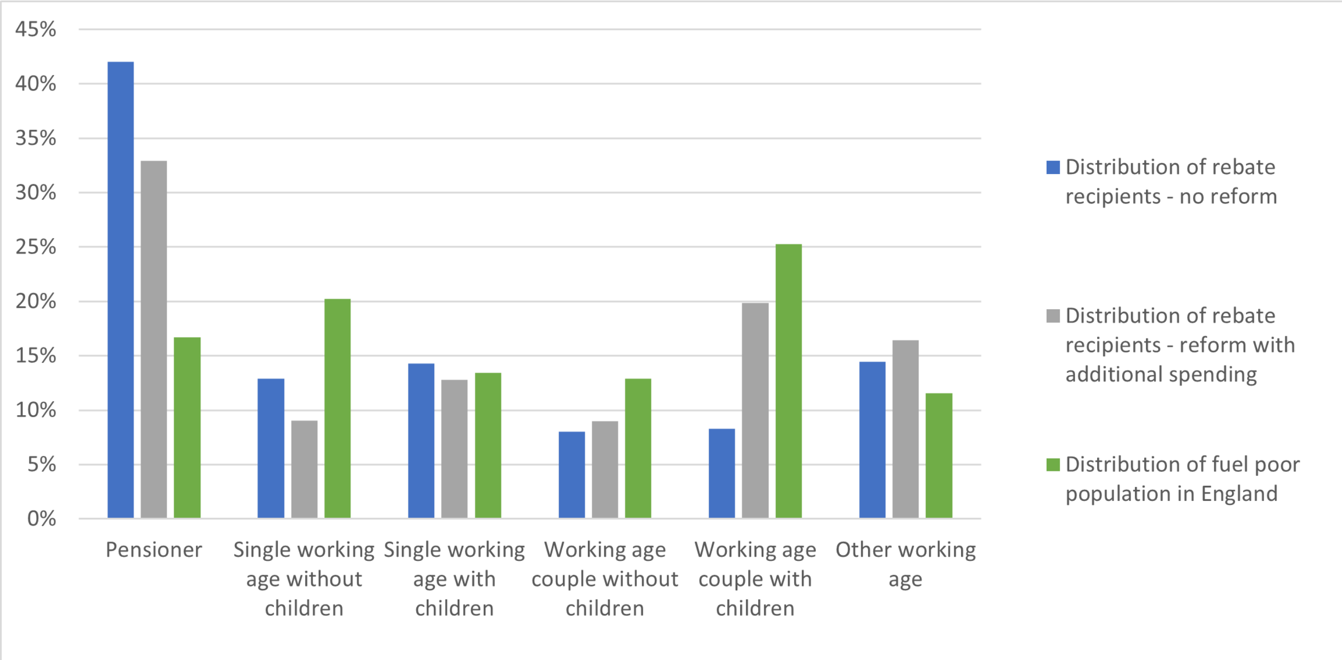
Source: Analysis of English Housing Survey 2017/18 and Fuel Poverty dataset 2018

Figure 4 shows that, for the proposed reformed scheme, the targeting of rebates across most socio-demographic groups is more closely aligned to the distribution of the fuel poor population across those groups. In particular, working-age couples with children are more appropriately represented. Pensioners are still over-represented (though to a lesser extent than without reform) due to the safeguarding of Pension Credit Guarantee Credit recipients via Core Group 1.

The group experiencing the biggest drop in representation is those who are single and working age without children.[25] However, we estimate that the absolute number of rebates received by this group may only be slightly less post-reform compared to pre-reform (see Figure 1),[26] and a higher number of future recipients would be fuel poor (see Figure 3).

[25] This is likely to be because single working-age households without children are much more likely to live in properties with smaller floor area than the other demographic groups, therefore have lower estimated energy costs and consequently receive a smaller proportion of the rebates under the reformed scheme.
[26] Given the modelling methodology and use of survey data, this is unlikely to be a significant result.

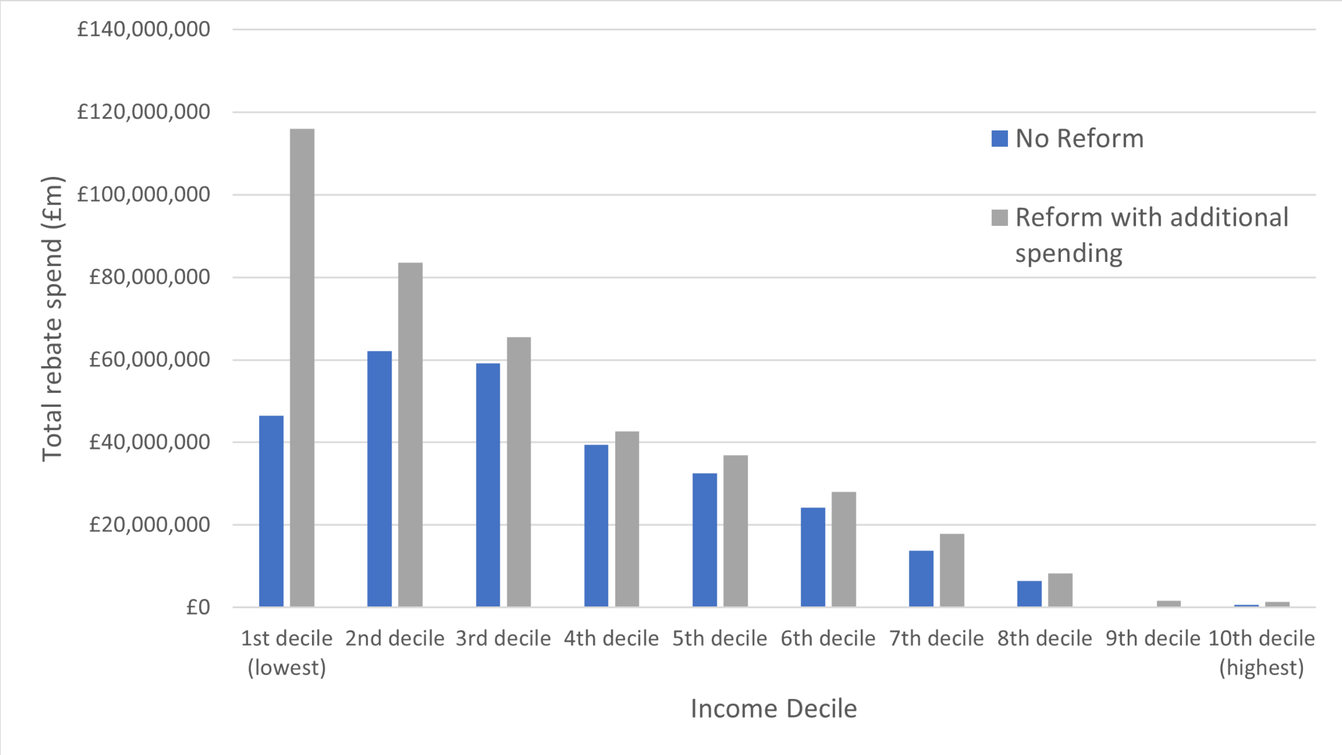
Figure 4 Distribution of rebate recipients by socio-demographic group compared to the distribution of the fuel poor population in England



Source: Analysis of English Housing Survey 2017/18 and Fuel Poverty dataset 2018

As illustrated in Figure 5 there would be an estimated increase in the number of rebates going to poorer working households, from around 310,000 to around 770,000 in the lowest income decile. Two thirds of rebate recipients would be in the lowest three income deciles.

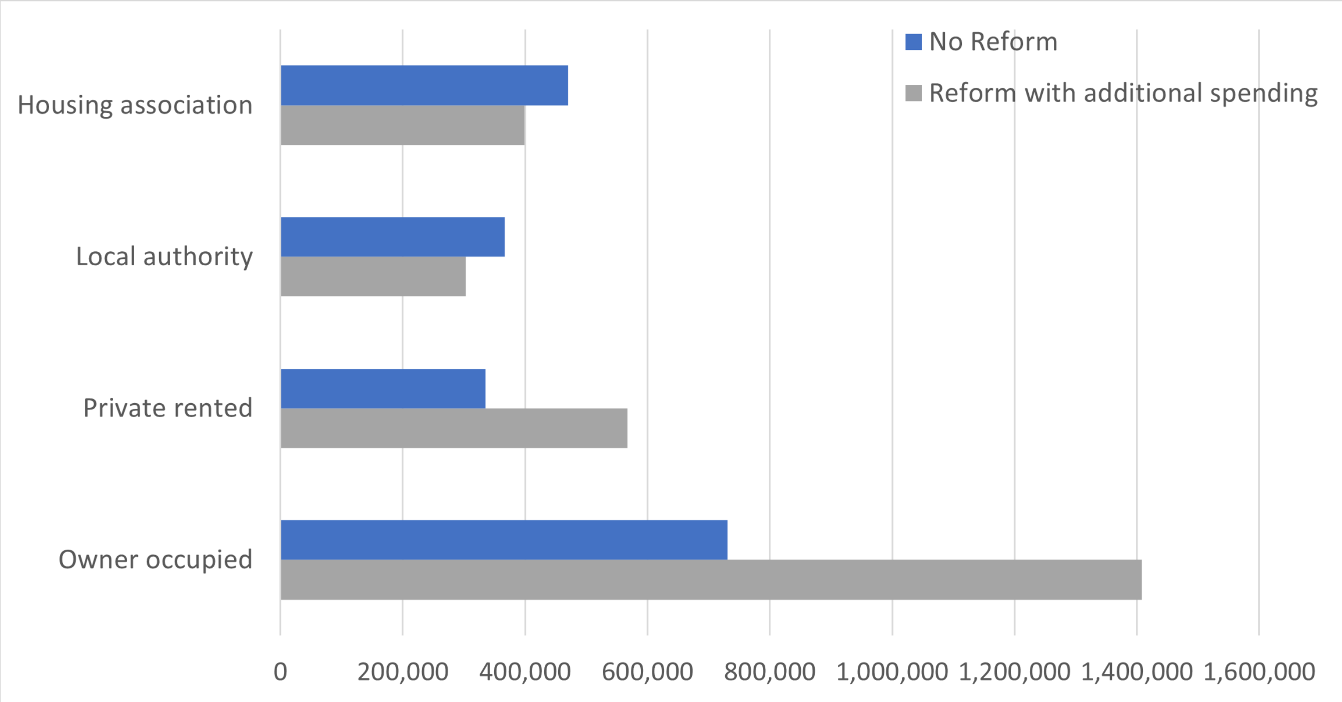
Figure 5 Warm Home Discount rebate distribution by income decile under the proposed reform compared to the current scheme (£ million)



Source: Analysis of English Housing Survey 2017/18 and Fuel Poverty dataset 2018

As shown in Figure 6, there would also be around an estimated 230,000 additional households in the private rented sector receiving the rebate. This tenure has the highest proportion of fuel poverty, with 37% of fuel poor households living in private rented accommodation. There would be a reduction in rebate recipients living in Local Authority or housing association homes, reflecting the better energy efficiency ratings and therefore lower energy costs and lower average fuel poverty gap compared to other tenures.

Figure 6 Number of rebates to different tenure groups under the proposed reform compared to the current scheme (Winter 2022/23)



Source: Analysis of English Housing Survey 2017/18 and Fuel Poverty dataset 2018

Some households which are currently eligible to apply for the Broader Group rebate would no longer qualify for a rebate under Core Group 2.

In particular, some households in receipt of the Disability Living Allowance (DLA) and Personal Independence Payment (PIP) who currently receive the rebate as a consequence of being in receipt of another qualifying benefit under the Broader Group, may lose out under the reform proposals. This would likely be for two reasons:

- DLA and PIP alone not being considered as a low-income proxy under Core Group 2. It is important to note that DLA/PIP recipients who also receive a means-tested benefit would still be considered low income under Core Group 2; and
- Those DLA and PIP recipients who receive another, means-tested benefit but who do not have high energy costs would not be eligible for the rebate.

We estimate that the number of rebates given to households on DLA/PIP may reduce by around a third, from 710,000 to 500,000, compared to the current scheme.[27] However, those receiving the rebate would be more likely to be fuel poor and in deeper fuel poverty.

As stated previously in the document, we propose using receipt of the specified means-tested benefits and income-capped Tax Credits to determine low-income households. DLA and PIP are not means tested, which means the income of DLA/PIP recipients is typically higher than

[27] Including Attendance Allowance (AA) together with DLA and PIP would increase both these figures by around 90,000, with no significant change to the absolute difference.

the proposed target benefit-recipient households and households below the poverty line. This is illustrated by the income figures below for 2018:[28]

- The fuel poverty income threshold for households living in fuel poverty – 60% of the median income of all households – was £13,533;[29]
- The median income of those eligible under the proposed low-income criteria was approximately £10,060.[30] This compares with a median income of £10,184 for fuel poor households;[31]
- The median income of DLA/PIP recipients was approximately £14,434.[32]

The fuel poverty rate of households in England and Wales with a long-term illness or disability is around 22%,[33] higher than the rate of the overall population, which is around 16%.[34] However, any DLA/PIP household that is in receipt of other, means-tested benefits would be considered as low income under the proposed reformed scheme; the 2017/18 English Housing Survey indicates that around 47% of disability benefit (DLA/PIP) recipients would be eligible for a rebate under the 'low income' criteria for WHD reform.[35] The fuel poverty rate for that group is around 44%, compared to only around 19% for those disability benefit (DLA/PIP) recipients not eligible for the reformed WHD scheme under the low-income criteria.[36] The majority of ineligible DLA/PIP households are in higher income deciles and are therefore less at risk of fuel poverty, if at all.

We have considered the impact of introducing DLA/PIP to the low-income eligibility criteria. This would result in higher income DLA/PIP recipients displacing lower income DLA/PIP recipients in certain circumstances, such as if their energy costs were slightly higher. Government does not hold household income data for DLA/PIP recipients, so we are unable to otherwise distinguish between different income groups. In our view the proposed approach is more likely than the current arrangements to ensure that fuel poor DLA/PIP households receive support.

Figure 7 highlights how many households with a disability, such as those claiming DLA/PIP, would still satisfy the low-income eligibility criteria in the proposed reformed scheme.

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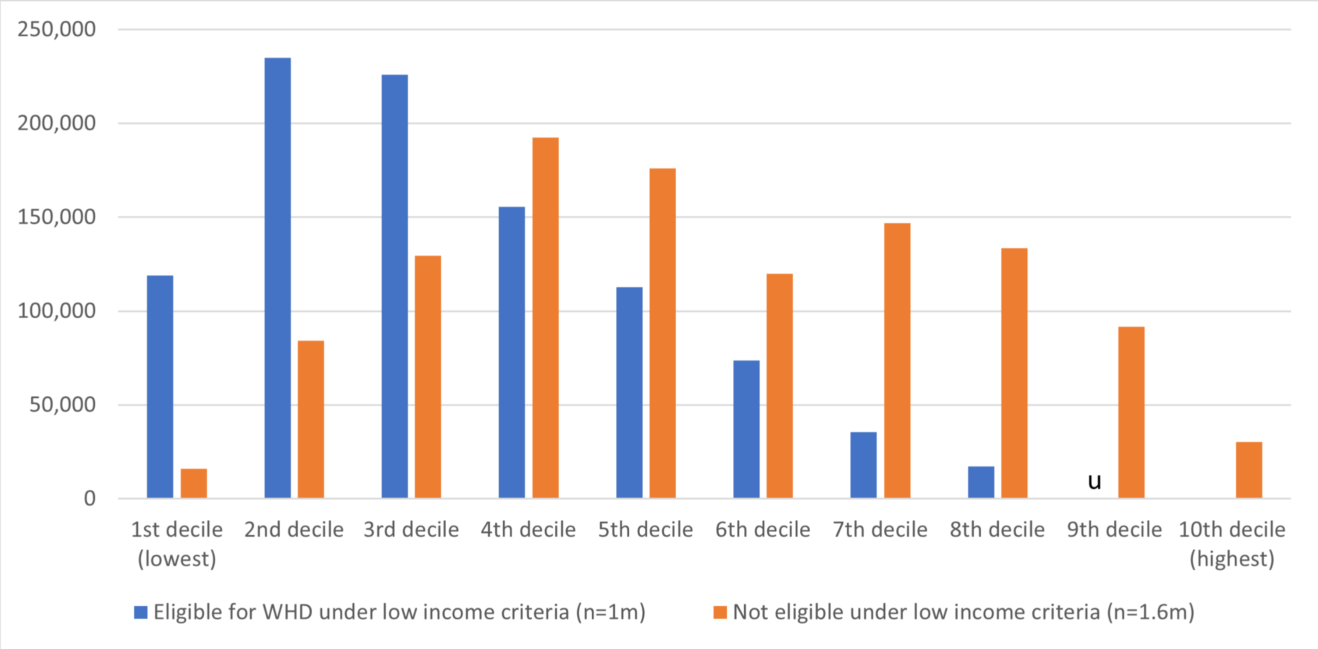
[28] These income figures are based on 2018 data, are after housing costs, adjusted according to household composition ('equivalised'), and exclude disability benefits.
[29] Fuel Poverty Detailed Tables 2020, Table 2: 60 per cent of £22,555 (median after housing costs equivalised income for all households) = £13,533 https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2020
[30] Estimated from the 2017/18 English Housing Survey.
[31] https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2020
[32] Estimated from the 2017/18 English Housing Survey.
[33] A household that contains someone with a long-term illness/disability that states their condition reduces their ability to carry out day-to-day activities. Examples of long-term illnesses/disabilities include, but are not limited to, conditions which affect vision, hearing, mobility and/or mental health.
[34] Estimated from the 2017/18 English Housing Survey. Note that figures may not align with the fuel poverty statistics as the figures shown measure fuel poverty before WHD.
[35] Including Attendance Allowance (AA) as a disability benefit would reduce this to 39% but this does not include those eligible for a WHD rebate via the PCGC eligibility for Core Group 1. Since AA is a pension age benefit, the majority of WHD rebates going to AA recipients would be via Core Group 1.
[36] See the accompanying impact assessment, Warm Home Discount (WHD) – Better targeted support from 2022 Consultation (BEIS010(C)-21-EEL).

Figure 7 The number of households in receipt of disability benefits (DLA/PIP) across income deciles, split by whether they would be eligible for the WHD reform under the 'low-income' criteria[37]



Source: Analysis of English Housing Survey 2017/18 and Fuel Poverty dataset 2018. "u" indicates sample size too small for reliable estimate.

Safeguards for households with a disability at risk of fuel poverty

The Core Group 2 high-energy-cost criteria only considers the heating costs of properties based on its characteristics, and not the needs and behaviours of their occupants. Recognising that some people with disabilities may, as a result of their disability, require more hours of heating or higher temperatures in their homes, we are proposing to introduce a safeguard for disabled households in fuel poverty under the Industry Initiatives element of the WHD scheme.

Provisions enabling suppliers to provide payments towards the electricity or gas bills of households where a person has a significant health problem or disability already exist in the Regulations.[38] We propose to work with energy suppliers and third-party organisations to provide a dedicated Industry Initiative that provides financial support towards energy bills for low-income people with disabilities at risk of fuel poverty. We would welcome views on such a proposal, including the design and administration of such an Industry Initiative, the amount of funding overall and available to individual households, and eligibility.

We propose that this Industry Initiative fund would be worth up to £5 million, administered by a third-party organisation and funded by discretionary contributions from energy suppliers, modelled on the successful Park Homes Warm Home Discount Scheme. Disabled customers

[37] Households in lower income deciles not eligible for the low-income criteria of the WHD reform are likely due to either under-reporting of benefit receipt in the English Housing Survey or households not claiming the benefits or Tax Credits they may be entitled to.
[38] Schedule 4 of The Warm Home Discount Regulations 2011.

would apply for energy bill payments under this Industry Initiative. As it would be application , we would work with charities and other third-party organisations to ensure that it is sufficiently publicised.

To increase the number of households able to benefit from this additional financial assistance and simplify the administration of the scheme, bill payments would be worth up to £150 per household, in line with the proposal to set the Core Group 1 and Core Group 2 bill rebates at £150 (see section on Rebate size below). A supplier's funding towards this Industry Initiative would contribute to their permissible level of financial assistance they can provide under the provisions, which allows for financial assistance to customers living in a household with a person who has significant health problems or a disability, among other groups. Proposed minimum and maximum spending obligations on financial assistance are outlined below in section Provision of financial assistance.

Eligible applicants would be those account holders living in a household where a person has a disability or significant health problem who is in receipt of DLA, PIP, or AA, and the account holder or their partner is in receipt of at least one of the means-tested benefits proposed to constitute the low-income criteria for the Core Group 2. This is outlined in Table 2. Customers' eligibility would be confirmed through batch benefits checks with DWP to determine that they are in receipt of the qualifying benefits.

Table 2 Proposed disability Industry Initiative eligibility criteria

Conditions	Qualifying benefits and Tax Credits
Where the account holder or their partner residing permanently at the same address receives one of the following means-tested benefits:	Income-related Employment and Support Allowance (ESA) Income-based Jobseeker's Allowance (JSA) Income Support (IS) Universal Credit (UC) Child Tax Credits (CTC) (i) Working Tax Credits (WTC) (i) Pension Credit Savings Credit (PCSC) (ii)
And someone residing permanently at the same address receives one of the following disability benefits:	Personal Independence Payment (PIP) Disability Living Allowance (DLA) Attendance Allowance (AA)
(i) Households in receipt of these Tax Credits must be below a household income threshold, adjusted according to household composition ('equivalisation'). The detail of these thresholds would be consulted on in a later statement of eligibility. (ii) But not the Pension Credit Guarantee Credit (PCGC), as PCGC recipients with participating energy suppliers are eligible for a rebate under Core Group 1.	

The optimal arrangement for ensuring this support is well targeted would be to focus this funding on those with disabilities who do not qualify for a Core Group 1 or Core Group 2 rebate; for instance, because their property has low modelled energy costs on the basis of its property characteristics. However, such a restriction on eligibility could limit the uptake of this support. Provisions for suppliers to provide similar broader financial assistance have historically had a low uptake, at just 12.6% in 2019/20 and 7.2% in 2018/19 of the £5 million cap for financial assistance during those scheme years. Anecdotal evidence suggested that this low uptake resulted from customers not being sure whether they would receive a Core Group or Broader Group rebate that year, and therefore not applying for financial assistance. For that reason, for the 2020/21 scheme year, financial assistance eligibility was made independent from eligibility for a Core Group and Broader Group rebate.[39] Therefore, a

[39] Warm Home Discount Scheme 2021 to 2022 consultation, https://www.gov.uk/government/consultations/warm-home-discount-scheme-2021-to-2022

household may apply for additional funds under this Initiative even if they would also be eligible to receive a rebate from Core Group 1 or Core Group 2.

We would generally expect applicants' disabilities and health conditions to be those which require higher heating usage to manage and live comfortably. Such a disability could be those that are mobility related, and therefore mean the person spends more of their time at home and has a reduced ability to stay warm, and those that make the person more susceptible to cold-related illnesses and the impacts of these illnesses, for instance, respiratory and cardiovascular illnesses, mental health conditions, and suppressed immunity. We would welcome views on this aspect of the Initiative.

Separately, we are also proposing to allow emergency boiler replacements where there is a cold-related health risk in the household, as outlined below in the Boilers and central Heating systems section on Industry Initiatives.

Questions:

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?**

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?**

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?**

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? Please give views on the design and administration of such an Initiative, including the amount of overall funding, the amount of funding available to households, and eligibility.**

Data matching and sweep-up

Data sharing and matching

Current scheme overview

Under the current scheme, around 95% of Core Group rebates are provided automatically on energy bills through data matching between DWP and energy suppliers. Most low-income pensioners receive an energy bill rebate automatically and are sent a letter explaining that they do not need to take any action. Where customers cannot be matched between DWP and energy supplier data, Government sends relevant Pension Credit Guarantee Credit recipients a letter asking them to call a helpline to confirm their details and claim the rebate. Under the reform, this process for the Core Group 1 would continue unchanged.

Reformed scheme overview

In a reformed scheme, we are planning to build on and expand this successful process of data sharing and matching with energy suppliers to cover a larger cohort who have been identified as the Core Group 2. Current practice has been carried out successfully over the last ten years and serves as proof that this model is effective and proportionate.

We propose to use government-held data to identify low-income and high-energy-cost households under Core Group 2. As explained in the previous section, we propose matching data on benefits and Tax Credit receipt (held by DWP), property characteristics (VOA), and customer accounts (participating energy suppliers) with the aim of identifying eligible households and suppliers providing as many rebates automatically as possible. Other data sources would also be used by Government where data is missing (see section Process for households not matched with VOA data) or by customers to provide alternative evidence (see section High-energy-cost verification and challenge process).

This data sharing between government bodies and with energy suppliers is enabled by powers in the Digital Economy Act 2017.

The proposed data-matching process to identify the Core Group 2 low-income, high-energy-cost households is set out below and illustrated at the end of the section in Figure 8.

Process for identifying low-income, high-cost households

The proposed data-matching process each scheme year would be as follows:

- VOA would share with BEIS its dataset of the type, age, and floor area of residential properties in England and Wales (around 26 million properties). Where VOA data is missing, BEIS would impute the property characteristics from alternative sources, as outlined below. There might be a very small number of properties whose characteristics we would not be able to impute;

- BEIS would process the property characteristic data using the linear regression model to assign a predicted value for energy cost to each property. Those properties above the high-energy-cost threshold would be classed as 'high cost' (as per section Prioritising households with the highest energy costs). Those properties below the high-energy-cost threshold would be classed as 'low cost';
- BEIS would share with DWP the Unique Property Reference Numbers (UPRNs) and addresses of all households. Households would be marked according to whether the properties were high-cost, low-cost, or lacking complete property characteristics, and also whether their property characteristics came wholly from VOA data or were, at least in part, imputed from other sources;
- DWP would match the VOA addresses against the benefits recipients' addresses that meet the low-income eligibility criteria.[40] This would be done using UPRNs, address lines, and postcodes.

The outcome of this processing and data matching would identify the following low-income cohorts:

- Low income with high energy costs: Low-income households identified as having high energy costs (i.e. meeting or exceeding the high-energy-cost threshold). The high energy costs for most of these properties would have been calculated from VOA data, while a small number would have had one or more of their property characteristics imputed. Those households who are customers of participating energy suppliers would receive the rebate automatically;
- Low income with low energy costs: Low-income households identified as having low energy costs (i.e. below the high-energy-cost threshold), whose property characteristics were derived wholly from VOA data. These households would not be eligible for an automatic rebate. However, they could call the helpline to challenge this (as per High-energy-cost verification and challenge process below);
- Low income with low energy costs (imputed): Low-income households similarly with predicted energy costs below the high-energy-cost threshold. However, these households would have had one or more of their property characteristics imputed from alternative sources. These would not be matched with energy suppliers but would be contacted as per the Outreach section below;
- Low income missing value: Low-income households where one or more of the three VOA property characteristic variables (type, age, or floor area) are missing and Government would be unable to determine the property characteristics from alternative sources. This is estimated to happen in less than 3% of cases, if at all.[41] These would

[40] Excluding permanent registered care home and long-term hospital residencies, as benefit recipients residing at those addresses are unlikely to be energy bill payers.

[41] We expect the actual number of 'low income missing value' (LIMV) households to be much less than 3%. This figure came from a testing exercise where properties missing at least one property characteristic were not imputed at any stage. This cohort of households would therefore comprise the very small number of properties whose property characteristics we cannot reliably impute.

not be matched with energy suppliers but would be contacted as per the Outreach section below;

- Low income non-matched: Low-income households where differences in the data records (e.g. different address formatting) mean the DWP and VOA address data would not have matched. This is estimated to happen in less than 2% of cases and would result in a cohort among whom some may be eligible for a rebate.

Process for households not matched with VOA data

Data matching between VOA and DWP address data may result in a small number of cases (estimated at less than 2%) of low-income households that cannot be matched. Therefore, DWP would share the address data and UPRNs of these low-income non-matched households with BEIS, to impute their property characteristics from alternative sources where possible and use the linear regression to assign a predicted energy cost. BEIS would then return these address data and UPRNs back to DWP and suitably categorised so that they can be added to each of the existing, final three cohorts:

- Low income with high energy costs: Households who would be matched with energy suppliers, to determine those who are eligible for an automatic rebate;
- Low income with low energy costs (imputed): While these households would not be eligible for an automatic rebate, their energy costs would have been calculated on the basis of one or more property characteristics imputed from alternative sources, and so they would be contacted as per the Outreach section below;
- Low income missing value: As Government would be missing one or more of these households' property characteristics, it would not be possible to determine whether these households should be eligible for an automatic rebate. We expect very few households would be in this cohort, if any. They would be contacted as per the Outreach section below.

Imputation methodology

Where one or more of a property's characteristics are missing – whether through deficiencies in VOA data or as DWP could not match their address data with the VOA data – BEIS would run an imputation methodology. Imputation would draw upon alternative evidence where available and statistical methods. Imputed characteristics would be derived from probabilistic calculations from neighbouring properties and, where available, the Energy Performance Certificate, enabling Government to estimate their likely energy costs and compare their costs against the high-energy-costs threshold. There might be a very small number of properties whose characteristics we would be unable to impute reliably. As outlined below, these households would be contacted.

These imputed property characteristics would then be processed using the linear regression model to assign a predicted value for energy costs, as with all other properties. Those households whose energy costs meet or exceed the threshold and who are customers of participating suppliers would be eligible to receive the rebate automatically.

Further detail about the imputation methodology can be found in Annex: Imputing missing property variables.

Setting the high-energy-cost threshold

Government would set the high-energy-cost threshold in the first year of the reformed scheme, as outlined in the Prioritising households with the highest energy costs above. A similar data-matching exercise would be conducted to determine this threshold, in order to prioritise providing rebates to the 1.7 million low-income households with the highest energy costs.

The data-matching process would follow a similar process as the annual process outlined above, with some modifications:

- BEIS would model the energy costs for all households in England and Wales from VOA data, imputing property characteristics where these are missing;
- BEIS would share the UPRNs and addresses of the households, ranked by energy cost, with DWP;
- DWP would match the VOA addresses against the relevant benefits recipients' addresses. Where there are low-income non-matched households, DWP would share the address data and UPRNs with BEIS;
- BEIS would impute the property characteristics for these low-income non-matched households and model their energy costs. BEIS would share these back with DWP, to obtain a full ranked list of low-income households with their modelled energy costs;
- The high-energy-cost threshold would be set to maximise the number of households that would receive a rebate, aiming for 1.7 million households.

Data matching with energy suppliers

Under the current scheme, the Secretary of State gives a direction to scheme suppliers requesting that they share certain information with DWP about their customers as of a specific date (as outlined in Qualifying date below). The data-matching process is run between DWP (on behalf of BEIS) and energy suppliers.

Under current data-sharing arrangements for the Core Group, DWP shares the postcodes of Pension Credit Guarantee Credit recipients[42] with energy suppliers to identify their customers who potentially qualify for a Core Group rebate. Once customer details have been matched, DWP issues energy suppliers with instructions to provide rebates to those customers. This data matching is carried out under powers in The Disclosure of State Pension Credit Information (Warm Home Discount) Regulations 2011.[43]

It is proposed that the current Core Group data-matching process with energy suppliers would be carried forward into the reform. The data matching for Core Group 1, of Pension Credit

[42] Excluding permanent registered care home and long-term hospital residencies, as benefit recipients residing at those addresses are unlikely to be energy bill payers.
[43] The Disclosure of State Pension Credit Information (Warm Home Discount) Regulations 2011, https://www.legislation.gov.uk/uksi/2011/1830/made

Guarantee Credit recipients, would continue. The data matching for Core Group 2 would be functionally similar. Once households have been identified as ‘low income with high energy costs’, their postcodes would be matched with energy suppliers’ customer data to identify their potentially eligible customers. Once customer details have been matched, DWP would instruct suppliers to issue rebates to these customers. The Core Group 2 data matching would be carried out under powers in the Digital Economy Act 2017.

The Core Group 1 and Core Group 2 groups would be cross-checked to ensure that no household receives the rebate twice.

Qualifying date

To make a decision on who qualifies for the rebate and enable the data matching to take place, we need to select a qualifying date in relation to which we assess whether a person meets the low-income eligibility criteria. This is the current approach with the Core Group, and this qualifying date would apply to both the Core Group 1 and Core Group 2 in the reformed scheme.

We would set the qualifying date as close as possible to the data matching between VOA, BEIS, and DWP data and to the data matching between DWP and energy suppliers. The closer the qualifying date to the data-matching period, the lower the risk of circumstances changing between the two dates.

We propose that the data-matching process would run broadly from July to October as follows:

- The qualifying date would be set for that scheme year;
- VOA and DWP data would be matched and any missing property characteristics imputed to identify low-income high-cost households;
- A ‘live’ test would be run with energy suppliers; and
- Data would be matched with energy suppliers, following which suppliers would be informed which of their customers to provide with rebates.

A qualifying date would not be set in relation to the high-energy-cost criteria. The latest available data from the VOA and other sources, as outlined in Annex: Imputing missing property variables, would be used during the data matching and imputation. Admissible evidence that customers may provide when calling up the helpline, as outlined in section Alternative evidence, would similarly not have a qualifying date. This is to ensure that the most accurate evidence of a property’s characteristics can be used to estimate its likely energy costs and therefore whether it is above the high-energy-cost threshold.

Sweep-up process

Customers not matched with energy suppliers

Currently, Core Group Pension Credit Guarantee Credit recipients who cannot be matched with an energy supplier are called 'unmatched'. This can happen if their address is recorded differently by DWP and the supplier or if their supplier does not participate in the scheme.

Government writes letters to unmatched Pension Credit Guarantee Credit recipients to let them know that they may be eligible for a rebate, encouraging them to call the WHD helpline by a certain date before the end of the scheme year to verify their details. Once verified and if eligible, they receive a rebate.

We propose to build on and expand on the current process to ensure that unmatched Core Group 2 customers have an opportunity to claim a rebate through the helpline. The Government would write letters to households identified as 'low income with high energy costs', but who are unmatched with a participating energy supplier, to inform them that they may be eligible for a rebate and that they may call the WHD helpline if they think they are eligible.

High-energy-cost verification and challenge process

In addition to the helpline allowing people to verify that they are with a participating supplier, under the proposed reform people could phone the helpline to challenge their high-energy-cost eligibility.

Outreach

Information on the scheme and contact details of the helpline would be provided on the WHD gov.uk pages. We would also engage prior to the scheme commencing with: DWP call centres, so they can direct customers to the website or describe eligibility to them; DWP's Touchbase, with a reach of tens of thousands of subscribers;[44] consumer organisations such as Citizens Advice, who may assist people in this process; and other relevant charities.

Those households who, in absence of VOA data, have had any of their property characteristics imputed, would be contacted by letter. The Government would therefore send additional letters to the following two groups:

- Low-income households missing value: Households identified as in receipt of one of the qualifying benefits but whose property characteristics BEIS was unable to fully and reliably impute from alternative sources. Government would therefore be unable to estimate these households' energy costs and determine whether they are above the high-energy-cost threshold. The letter would inform them that they may be eligible for a rebate and contain information about the criteria and how they can check their eligibility;

[44] Touchbase is a communications channel containing new and updates from DWP, including about the benefits system, pensions, and job-related news.

- Low-income households with low energy costs modelled from imputed property characteristics: A letter would be sent to those low-income households whose estimated energy costs fall below the high-energy-cost threshold but were calculated using imputed property characteristics. Given the potential for less accurate or reliable data from these imputed sources compared to VOA data, the letter would explain that they may call the helpline to provide alternative evidence, if they consider that they may be eligible.

Alternative evidence

While Government considers the property characteristic data from the VOA and other sources under the imputation methodology to be accurate, customers may contact the helpline to provide alternative evidence. This needs to ensure a balance between allowing legitimate challenge and ensuring the evidence used is robust.[45] We also want to avoid raising false hopes that alternative evidence would always result in households being eligible for the rebate. With that in mind, we plan to make an online tool available which would allow people to check if they may be eligible according to the criteria. This would allow them to judge whether to call the helpline for further assessment.

Alternative data with sufficient accuracy or coverage is limited. We propose the following alternative evidence would be accepted, coupled with a declaration by the customer that it provides an accurate reflection of their property:

- An Energy Performance Certificate (EPC): EPC data includes property age, type, and floor area.[46] EPCs are available for around 50-60% of residential properties and we intend to work with relevant parties to allow the helpline call centre access to all three variables.

The following alternative evidence would be accepted only where an EPC is not available:

- Information from the Land Registry: this is from the Price Paid Dataset[47] for property type or the Title Register for property age. The Title Register comes with a one-off cost of £3 and so we intend to investigate ways to enable data access for the helpline. This data has 86% coverage in England and Wales.

[45] VOA data is based on a variety of sources, including Local Authority planning portals and sales particulars (property type, age, and floor area). Property type and age are unlikely to be inaccurate, while floor area may have changed if an extension or loft conversion has occurred since the property details were last checked. In order to mitigate the impact of this potential change, eligibility criteria for floor area would be set by size bands (e.g. 100-105m²) and we expect that properties not captured in the same floor area band after taking into account an extension or loft conversion would be a small number of cases, as this will only affect extensions above a certain size. In order to guard against inaccuracies, values for property age would also be set by age bands. We will consult publicly on high-energy-cost eligibility criteria and bands separately.
[46] As EPC and VOA floor area definitions differ, the evidence provided would be converted using machine learning, so it aligns with the VOA floor area definition.
[47] The Price Paid Dataset tracks residential property sales in England and Wales that are lodged with the Land Registry. The dataset is a source of house type for properties which have been sold since January 1995, comprising an estimated 24 million.

It may be possible to use Google Street View to establish the property type where the EPC or Land Registry data is unavailable. Use of this method would be limited to certain types of properties however and we welcome views on its suitability.[48]

Currently, we have not found a verifiable proxy for property floor area outside of EPCs. Where an EPC is not available[49] (and, in the case of property age and type, Land Registry and, where relevant, Google Street View data are also not available), the helpline would suggest getting an EPC. Customers would be advised that this would be at their own cost (on average £60) and would not guarantee a change to their eligibility for a rebate. Where an EPC is available but the owner or occupier of the property has opted out from having this information publicly available online, the customer would be asked to provide the report reference number (so the helpline can find the EPC online) or to allow MHCLG to opt-in the EPC.[50]

We have investigated the use of architectural plans as evidence. Such plans are hard to access and would require specialised assessment and verification, alongside their comparisons with property cohorts and other evidence. This would place too great a burden on the individual, the Government, and the helpline, as well as increasing the risk of fraud. We do not consider this a viable option, therefore, especially when weighed against the low likelihood of the evidence resulting in a change in eligibility.

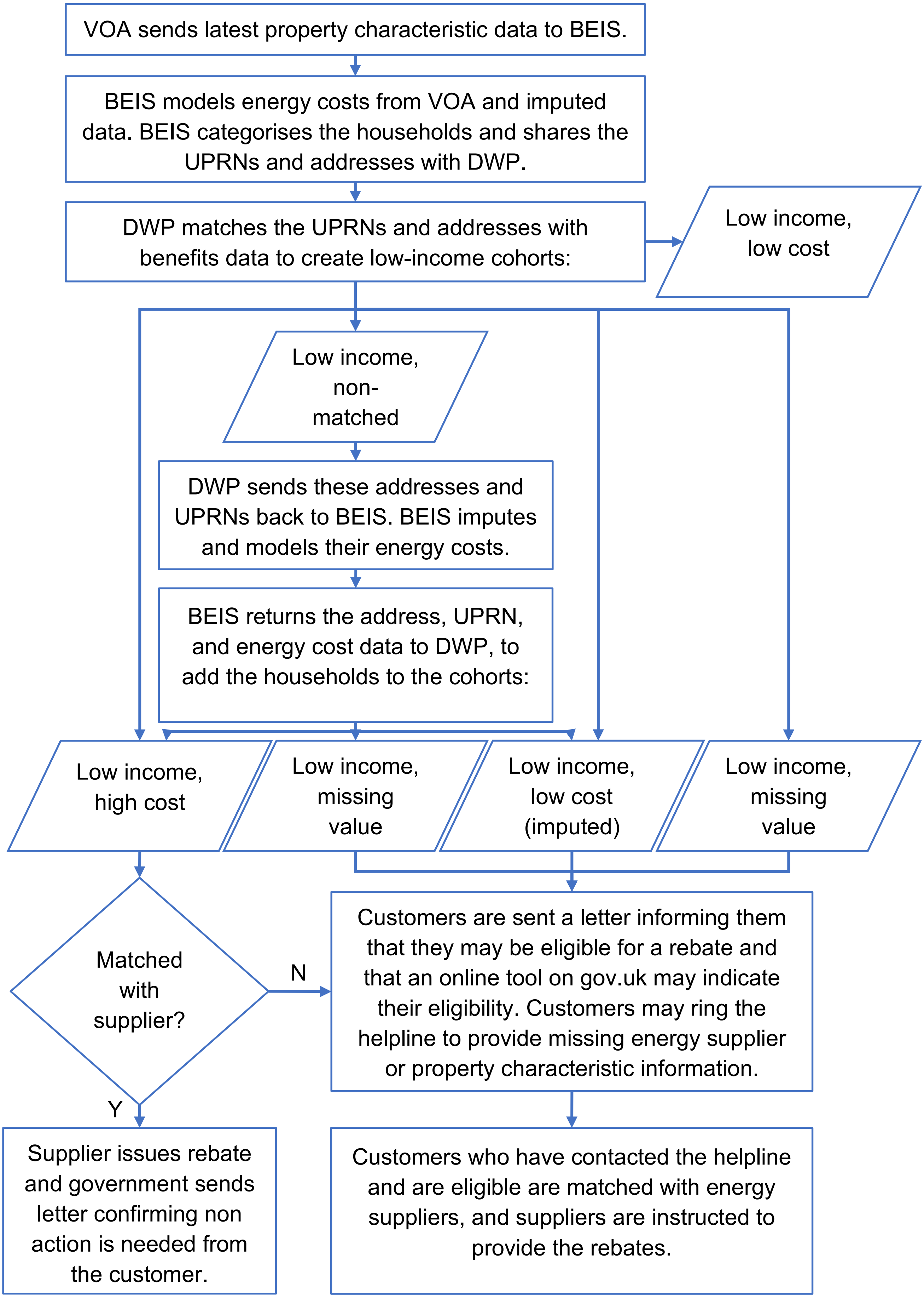
Referrals into Industry Initiatives

We would explore the potential for a referral mechanism into Industry Initiatives if a household could not be identified as eligible using permissible alternative evidence under the challenge process. This could be used in particular to support households that are especially vulnerable to the cold. Under Industry Initiatives, customers could be provided with a range of support, including energy bill rebates, energy bill and debt reduction advice, and energy efficiency measures.

One relevant example is the Park Homes Warm Home Discount Scheme where customers can apply for a rebate if they live in a park home. We welcome views on how a similar scheme aimed at households with a disability or other health conditions could work in conjunction with the challenge process outlined above: for example, what evidence would be required; what referrals processes could be used; and how this would link with the challenge process outlined above.

[48] Street View can allow for a basic check of what type of building a property is, e.g. if it is detached. The limitations of this method include: properties set back from the road; rural properties or properties on private roads which are not captured; and the inability to see where a house has been converted into flats.
[49] Between 50-60% of residential properties have an EPC. We expect that this percentage will increase over time. https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/energyefficiencyofhousinginenglandandwales/2020-09-23#coverage-of-energy-performance-certificate-data
[50] Guidance on Energy Performance Certificates: Opt-out of public disclosure https://www.gov.uk/guidance/energy-performance-certificates-opt-out-of-public-disclosure

Figure 8 Data-matching process map for identifying eligible Core Group 2 households



Questions:

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

6. **Do you agree with Government's proposed use of an imputation methodology to fill in missing data or non-matched data to enable rebates to be delivered automatically to a greater number of people?**

7. **Do you agree with the proposed approach to setting a qualifying date?**

8. **Do you agree with the proposed sweep-up and high-energy-cost verification and challenge process?**

9. **Do you agree with the proposed permitted alternative data sources for proving eligibility for the rebate?**

Overall spending targets

Spending targets

Overall spending for the scheme

The spending target for scheme year 11, 2021/22, is £354 million. From 2022/23 we have committed to increase the total spending to £475 million (in 2020 prices) and to increase with inflation thereafter. We plan to estimate inflation and set the annual spending obligation in the regulations, to provide certainty for all four scheme years.

We estimate that the policy cost of the current scheme is £14 per dual fuel customer account, which is a customer receiving gas and electricity from the same supplier. With the larger spending envelope, we estimate this will increase to £19 per dual fuel customer account. Whilst the spending will increase with inflation, the changes to the bill impacts will be minimal as the total number of domestic energy customers will also increase during that time.

The total spending target would be set for Great Britain. As the proposed reformed scheme would cover England and Wales only from April 2022, the Government proposes to apportion a specific amount of the overall value of the scheme to Scotland for Scottish Ministers to design and implement a WHD scheme for Scotland.

We propose that this apportionment should be proportionate to the number of domestic gas and electricity meters in Scotland compared to Great Britain, using the latest publicly available data.[51] At the time of the publication of this consultation, this would mean that 9.4% of the total spending envelope would be apportioned to Scotland from April 2022, equivalent to £46 million in 2022/23 and rising annually thereafter.

The overall spending for Great Britain and the respective spending targets in England and Wales and Scotland are set out in Table 3 below.[52] The remainder of this chapter deals with spending in England and Wales only.

[51] Sub-national electricity consumption data, BEIS, https://www.gov.uk/government/collections/sub-national-electricity-consumption-data
[52] Based on consumer price index projections from OBR, Economic and Fiscal Outlook, November 2020: Table 1.7: Inflation https://obr.uk/efo/economic-and-fiscal-outlook-november-2020/

Table 3 Estimated annual spending in Great Britain (£ million)

	2022/23	2023/24	2024/25	2025/26
Great Britain	488	496	505	515
England and Wales	442	449	458	467
Scotland	46	47	47	48

Key components

The spending for the scheme, covering England and Wales, would be split among the three parts of the scheme: Core Group 1 (CG1); Core Group 2 (CG2); and Industry Initiatives. CG2 and Industry Initiatives would replace the current 'non-core' obligation.

The majority of the scheme's spending would be on rebates for CG1 and CG2. Spending across the three key parts of the scheme would be determined as follows:

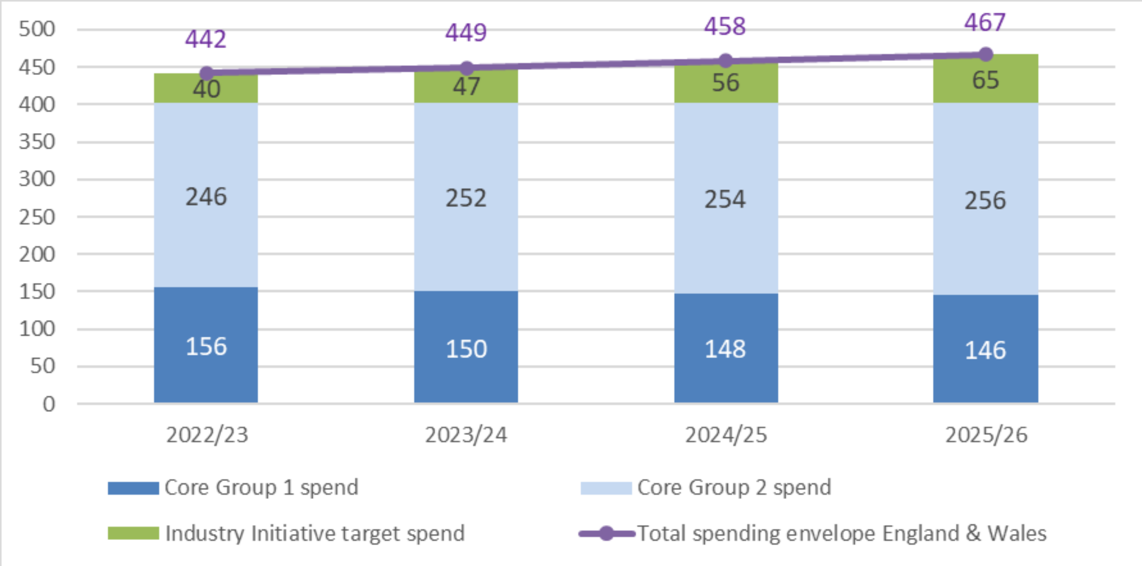
Table 4 Summary of scheme component spending

Scheme component	Funding summary
Core Group 1 (CG1)	We expect there would be around 1 million CG1 recipients in the first year of the scheme. Each year, we would estimate the spending for CG1 using the latest DWP forecasts of the number of Pension Credit Guarantee Credit claimants that year. We would adjust these estimates based on the expected data-matching rates with energy suppliers and claim rates through the sweep-up process.[53]
Core Group 2 (CG2)	We expect there would be around 1.7 million CG2 recipients in the first year of the scheme. As with CG1, spending on CG2 would be estimated each year based on the size of the eligible benefit groups using DWP benefits forecasts and adjusted according to the expected data-matching rates with suppliers and claim rate through the sweep-up process.
Industry Initiatives	In the proposed reform, spending on Industry Initiatives activities would become mandatory, which we expect to be set at £40 million in 2021/22. We propose that Industry Initiatives spending should be used to absorb some of the overspending or underspending in the Core Groups. Therefore, the spending target for Industry Initiatives would be adjusted each year either downwards or upwards as appropriate but with the starting objective of spending the inflation-adjusted £40 million.

The expected spending levels year on year in England and Wales are set out below in Figure 9, based on current forecasts for the duration of the scheme.

[53] The data-matching success rate for automatic rebates was 96% of rebate recipients in the 2019/20 scheme year.

Figure 9 Expected spending levels by scheme year for England & Wales (£ millions)[54]



Overspending and underspending provisions

Core Group variations

Under the current scheme, the number of Core Group rebates can vary between years, due to changes in the numbers of Pension Credit Guarantee Credit recipients with participating suppliers, differing data-matching success rates, and varying numbers of people calling the helpline. Any overspending or underspending on Core Group rebates in a given scheme year is taken into account when setting the non-core spending obligations (Broader Group and Industry Initiatives) in the following two years.

Under the reformed scheme, the Government would estimate the spending on rebates for CG1 and CG2 based on the expected sizes of the eligible pools. This may vary year on year due to any changes to the benefits pool, the expected success rates for data matching, and the number of rebates issued via the helpline.

We anticipate that the total amount spent on CG1 would remain highly predictable relative to working-age benefits. There may be some increased uptake of Pension Credit Guarantee Credit, for instance as a result of the linking of free TV licence fees for those aged 75 or over with receipt of Pension Credit, but we expect these changes to be smaller than the potential fluctuations in CG2. CG2 would mainly comprise working-age households and would therefore fluctuate with economic performance and changes to welfare. We also expect to have a higher degree of uncertainty over the exact number of CG2 rebates in the early years of the reformed scheme.

We would intend to keep eligibility criteria for CG2 unchanged for the lifetime of the scheme and rely on the flexible Industry Initiatives spending to partially balance variations. We may change the CG2 high-energy-cost threshold, if for instance there are consistently large Core

[54] Excluding year-on-year adjustments to Industry Initiatives spending to account for over/underspending.

Group overspends or underspends. Our proposed approach assumes that large changes to benefits uptake are unlikely to happen without any warning.[55] We would then have time to either adjust the CG2 high-energy-cost eligibility criteria or tolerate the overspending or underspending.

Industry Initiatives adjustments

Currently, Industry Initiatives form an optional, capped part of a supplier's non-core obligation. As a well-established element of the scheme providing invaluable financial and non-financial support to household outside of the scheme's central rebates, we propose to make Industry Initiatives spending mandatory.

We would expect to set the overall base Industry Initiatives spending obligation at around £40 million in 2022/23, set with reference to the CG1 and CG2 estimates and the overall spending obligation. This would be set with the expectation that there are no significant changes in the number of households in receipt of PCGC between now and the first scheme year of the reformed scheme. Each year's base spending obligation would increase or reduce every year in line with the inflationary increases (or deflationary decreases) to the overall scheme. We would estimate inflation for the scheme years until 2025/26, according to the latest available Consumer Price Index (CPI) forecasts, and set these in regulations, to provide greater certainty about the level of Industry Initiative obligations for the duration of the scheme. Figure 9 illustrates these figures based on the CPI forecasts available at the time of the analysis.

After the first year of the reformed scheme, a large change in the size of the eligible benefits pool affecting either of the Core Groups may lead to the scheme substantially exceeding or falling short of its overall spending obligation. To mitigate this, we propose to use the Industry Initiatives spending as a buffer to absorb some of the overspending or underspending of the two Core Groups. The scheme year's Industry Initiatives obligation may be adjusted to take into account:

- Any expected increase or decrease in the scheme year's CG1 and CG2 spending compared with the previous scheme year;
- Any expected increase or decrease in the CG1 and CG2 spending for the previous scheme year compared with the previous scheme year's estimated CG1 and CG2 spending (taking into account any in-year adjustment in the previous scheme year – see below);
- Any actual overspend or underspend in the CG1 and CG2 spending from the previous two years compared with the estimated spending.

We propose to undertake and communicate this adjustment before the start of the scheme year, in line with the process for determining the current scheme's 'non-core obligation' each year. From this, Ofgem would then calculate each supplier's spending obligation towards Industry Initiatives for the scheme year.

[55] Accepting that there may be extreme exceptions such as the impact of Covid-19.

In order to provide certainty to energy suppliers and third-party organisations delivering Industry Initiatives, particularly multi-year projects, this adjustment would be capped at £10 million more or less than the base Industry Initiative spending obligation for that scheme year.

Additionally, we propose that a further in-year adjustment to the Industry Initiative spending obligation be made once the data matching for CG1 and CG2 has been carried out over the course of the summer in the scheme year. This data matching would provide a more accurate estimate of the CG1 and CG2 rebates to be delivered and therefore likely overspends or underspends. This adjustment would also take into account the proposed new customer reporting, described in the section Supplier participation below. Ofgem would then notify energy suppliers of any adjustments to their Industry Initiatives spending obligations. This in-year adjustment would be capped at £5 million, so long as the overall adjustment to the Industry Initiative spending obligation is not more or less than £10 million from the scheme year's base obligation.

We consider it proportionate to have two adjustments: one around the start of the scheme year, to provide suppliers and parties delivering Industry Initiatives a degree of certainty over the Industry Initiative spending obligation before the scheme year starts; and the other in year, to mitigate the risk of serious overspend or underspend on the overall spending obligation.

Other adjustments

Adjustments to take into account non-core spending from 2021/22

A supplier's Industry Initiatives spending obligation for 2022/23 would be adjusted by any undelivered rebates from 2021/22, the amount of non-core underspend incurred in 2021/22, and up to 5% to offset non-core overspend incurred in 2021/22. Where a Supplier of Last Resort has notified Ofgem on or before 15 February 2022 of its intention to voluntarily take on all or part of the failed supplier's non-core spending for scheme year 2021/22, they may carry over an overspend of up to 10% towards their Industry Initiatives in 2022/23.

As the WHD scheme moves from covering Great Britain in 2021/22 to separate schemes for England and Wales and for Scotland in 2022/23, where suppliers participate in both the England and Wales and Scotland schemes, their underspend and overspend obligations would be apportioned in line with section Overall spending for the scheme. Relevant suppliers would be required to adjust their Industry Initiatives obligation by 90.6% of their underspend or overspend obligations in England and Wales and their appropriate obligation in Scotland by 9.4% for that scheme year.

Adjustments in 2025/26

In the final year of the scheme, we anticipate that the risks of overspend and underspend would be lower, as we would have learnt from experience of scheme operation. Outside of the in-year adjustments to Industry Initiatives spending set out above, we propose to tolerate any overspend or underspend, depending on what follows the Warm Home Discount after 2026.

Illustration of proposed spending adjustments to Industry Initiatives

An estimate would be made of the value of the total expected Core Group 1 and Core Group 2 rebates in February (or after the regulations have come into force) before or around the start of the scheme year.

The total Industry Initiatives spending obligation would be calculated from its base obligation, whose base expected levels are set out in Figure 9. This base obligation would be adjusted by up to £10 million from the base mandatory Industry Initiatives spending to offset any estimated increases or decreases in the scheme year's Core Groups rebates, including from the previous scheme year and any actual underspend or overspend from the previous two scheme years. The Secretary of State would notify Ofgem of the total Industry Initiative obligation on or before 14 February.[56]

Ofgem would calculate each supplier's Industry Initiatives obligation and would notify suppliers on or before 14 March.[57]

As per current regulations, suppliers would notify Ofgem in the period 1 April – 31 August of any rebates that have been provided but not delivered in the previous scheme year.

Once data matching to identify Core Group 1 and Core Group 2 customers had been undertaken over the summer, the estimate of the Core Group 1 and Core Group 2 spending would be updated.

The overall Industry Initiatives spending and suppliers' obligations would be adjusted, by no more than £5 million from the previous estimate and up to £10 million from the scheme year's base Industry Initiative obligation, to reflect these new Core Group 1 and Core Group 2 estimates, any undelivered rebates from the previous scheme year, and suppliers' Industry Initiatives underspends or overspends (up to 5%, or 10% for relevant Suppliers of Last Resort) from the previous scheme year. The Secretary of State would notify Ofgem on or before 18 October.

Ofgem would recalculate and notify suppliers of their updated Industry Initiatives obligations on or before 31 October.

If there was a trend of continually and substantially overspending or underspending on the Core Groups, whether within or beyond the capacity of Industry Initiatives to absorb each year, we would consider whether to adjust the Core Group 2 high-energy-cost eligibility criteria.

[56] Or on or before the seventh day after the commencement of the implementing Regulations in the first scheme year of the reformed WHD, 2022/23.

[57] Or on or before the twentieth working day after the commencement of the implementing Regulations in the first scheme year of the reformed WHD, 2022/23.

Rebate size

When the WHD first began in 2011, the rebates were set at £120. Since 2014/15, the value of the rebate has remained at £140. This has been justified given that domestic energy bills have remained stable, and it has allowed more households to benefit from the total funding available.

Energy bills continue to remain stable, despite a trend of rising energy prices, in large part due to Government efforts on energy efficiency and product standards as well as the introduction of the price cap. Nevertheless, given we are increasing the bill impacts of WHD, we propose to increase the value of the rebate to £150 for the duration of the scheme.

As now, the rebate would be credited to customer electricity accounts as default, with dual fuel customers having the option of having it credited to their gas accounts. The rebate would be available regardless of payment type.

BEIS will publish a call for evidence on energy consumer funding, fairness and affordability which will consider the question of how supplier obligations should be funded. In this consultation, we are not proposing any changes to the funding model or obligation-setting methodology. However, we will reflect on the results of the call for evidence and wider retail market reforms to consider whether and how WHD would change, should the scheme continue beyond 2026. This may include a greater shift of scheme costs onto gas bills.

Scheme year

We propose to keep the scheme year as now, running from April to March and with the expectation that most of the rebate payments would continue to be made during the winter period, shortly following the data matching and when customers need them most. Where rebates are provided but not delivered, suppliers would be given longer timeframes to make reasonable attempts to deliver such rebates, as is the case with the current scheme.

Questions

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

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%?**

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

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?**

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?

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

Industry Initiatives

Currently, suppliers have the option to spend up to £40 million per year on Industry Initiatives. Suppliers spent £37.1 million on attributable Industry Initiatives activities in 2019/20, an increase from £30.3 million spent in 2018/19.[58] Industry Initiatives provide valuable support to vulnerable households, including those not on the benefits who are missing out on rebates or other forms of support for which benefits are used as a proxy for low income in eligibility criteria.[59] As outlined in section Industry Initiatives adjustments, we have proposed that Industry Initiatives spending should be mandatory and would be set at around £40 million for 2022/23. Below outlines the proposed changes to the permitted activities under Industry Initiatives.

Activities

Provision of financial assistance

Currently, financial assistance with energy bills can be offered to households at particular risk of fuel poverty. This includes households with pre-payment meters, off-gas properties, or customers with a long-term health issue or disability.[60] This financial assistance is capped at £5 million overall and the amount is capped at £140 per household per scheme year. Suppliers are able to provide smaller amounts, including multiple times to the same household, up to that limit.

Pre-payment meter (PPM) customers and self-disconnection

The number of PPM customers who self-disconnect due to affordability each year continues to be a concern. This can have significant negative impacts on customers, particularly those in vulnerable circumstances.[61]

It is estimated that in 2017 around 140,000 PPM households in Great Britain (16% of all those with a PPM) self-disconnected from gas and/or electricity as they could not afford to add credit to their meter. This was an increase compared to previous years. Citizens Advice reports around 20% (around 70,000) of their users who declare self-disconnection cite affordability as

[58] Ofgem, Warm Home Discount Annual Report: Scheme Year 9, https://www.ofgem.gov.uk/environmental-programmes/social-programmes/warm-home-discount/warm-home-discount-reports-and-statistics
[59] 48.6% of fuel poor households were not on means-tested benefits in 2019 according to the latest fuel poverty statistics.
[60] The Warm Home Discount Park Homes Scheme is not considered part of this.
[61] These are well documented in Ofgem's proposals on self-disconnection and self-rationing, the decision for which was published in October 2020 https://www.ofgem.gov.uk/publications-and-updates/self-disconnection-and-self-rationing-decision

the cause. Many of those households were amongst the most vulnerable, with 87% receiving benefits, 50% having a mental health condition, and 33% having a child under the age of 5.[62]

BEIS analysis from 2019 highlighted the potential impact and extent of self-rationing and self-disconnection, with fuel poor consumers on PPMs using on average £340 less on their energy than would be deemed sufficient by statistical modelling. This analysis also highlighted a ‘consumption gap’ of £340 among fuel-poor consumers on PPMs compared to other payment methods (£301).[63]

Proposed changes to financial assistance provisions

Smart meters may help to reduce self-disconnections through emergency-friendly credit applied remotely. Ofgem have introduced enhanced requirements as part of the updated Ability to Pay principles in supplier licence conditions which require suppliers to identify PPM customers who are self-disconnecting and to offer them and other customers facing financial difficulties support. We believe that additional support can be provided, through financial assistance where needed as well as additional support such as energy advice and energy efficiency measures.

We propose to increase the current cap for Industry Initiatives financial assistance of £5 million to £10 million and introduce a minimum spend of £5 million overall. This would help to provide increased support to tackle the issue of self-disconnection, whilst continuing to offer support to other low-income and vulnerable households, such as those with a long-term health condition that are currently eligible for such support. We do not propose to change the criteria to determine households that can receive support under these financial assistance provisions.

As mentioned above, the amount of financial assistance that can be awarded per household per scheme year is currently capped at £140, which is the same as the current rebate value. A cap enables more households to receive support. Some organisations running fuel banks provide smaller amounts which helps the customer manage bills more effectively.

We propose to increase this to £150 per household, in line with the Core Group rebates. However, we welcome your views on whether it should be further increased to allow greater intervention.

We want to avoid this financial assistance becoming a backdoor route to debt write-off or reduction; therefore, we do not intend to change the current requirements that spending under this type of financial assistance cannot be used for debt write-off.[64] Suppliers may find for PPM customers that some debt write-off is required before financial assistance can be provided.

[62] Citizens Advice, ‘Switched on: improving support for prepayment consumers who’ve self disconnected’ (2018), https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/PPM%20self-disconnection%20short%20report.pdf

[63] Jennifer Arthur, ‘Comparison of theoretical energy consumption with actual usage’, Energy Trends publication, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/789775/Comparison_of_theoretical_energy_consumption_with_actual_usage.pdf, 28.3.2019)

[64] Suppliers will not be able to count debt write-off spending under this financial assistance, though financial assistance can be given in combination with other Industry Initiatives, such as debt write-off. Where both types of assistance are provided to a household, suppliers will need to set out clearly the level of support provided as financial assistance and the level of support provided as debt write-off.

Such debt write-off would need to be counted under the debt write-off cap mentioned further below.

The provision of financial assistance, such as fuel vouchers, could be administered by an existing fuel bank scheme or by centrally run schemes similar to the Park Homes scheme, with third party referrals through GPs, local councils, social care, and food banks. Alternatively, energy suppliers could use smart meter data to identify customers with unusual top-up or usage behaviour.

Case study – Fuel Bank™

The Fuel Bank Foundation was set up to deliver fuel vouchers to those facing an energy crisis. This includes those who self-disconnect or who are on emergency credit. The vouchers have a value of between £30 and £49.

Fuel Banks are run alongside food banks, and other local centres where people in crisis are likely to turn, where trained staff are able to identify those who may be struggling with the costs of heating their homes. The success of the Fuel Bank initiative, originally developed by npower to provide a timely response to self-disconnection, relied on the training and compassion of staff, who offered support to voucher recipients, including advice to help address the cause of the crisis alongside an energy advice booklet to provide practical steps to reduce energy costs. Innovative systems, such as the use of text messages to send voucher codes, also helped the system to work effectively.

A majority of recipients used part of the voucher to repay emergency credit charges or to prevent the use of emergency credit. Although multiple vouchers were available, the average household supported needed less than two, indicating that the respite provided allowed at least part of the original crisis to be addressed.

Questions

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.**

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?**

Energy debt write-off

Currently, energy debt write-off – the reduction or cancellation of energy debts on a customer's electricity or gas account – is capped at a total of £6 million. As with other Industry Initiatives, where practicable, debt write-off should be accompanied by a package of measures aimed at providing longer-term relief, such as energy advice.

There are benefits to continuing to support debt write-off under Industry Initiatives, given it is a way of engaging with those customers who are hardest to reach and providing them with wider support at the same time, such as help with financial management, energy advice, energy efficiency, and other measures to keep down energy bills. Debt write-off can be especially valuable for customers who may be self-disconnecting or at risk of self-disconnection, and self-disconnection is a particular risk for customers with debts on PPMs; in 2018, Citizens Advice found that 40% of those whose PPMs were used to collect debt had self-disconnected.[65]

On the other hand, it is our expectation that energy suppliers will become more effective at supporting their customers with energy debt management. This will be helped by the rollout of smart meters.[66] Energy suppliers should take preventative measures to support their customers to avoid creating bad debt – debt considered uncollectible – and to avoid existing bad debt increasing. Industry Initiatives debt write-off provisions should not be treated as a way of writing off historic bad debt.

We therefore propose to continue to allow energy debt write-off as an Industry Initiatives activity. In addition, we propose to focus support for PPM customers who are self-disconnecting or are at risk of self-disconnecting by reserving a fixed amount of the cap for those households. £3 million of the debt write-off cap would be reserved for PPM customers self-disconnecting or at risk of self-disconnecting, while the remaining amount could be apportioned to any customer.

Since 2020/21, energy debt write-off has been capped at £6 million per scheme year. This cap has been reduced gradually since the cap was first introduced in the sixth year of the scheme, at £15 million. We would welcome views on whether the cap should be reduced further to £5 million and from which scheme year. On the one hand, reducing the cap would help ensure the measure is focused on supporting customers and not being used to write off large amounts of bad debt. On the other hand, writing off current debts helps households who are or are at risk of self-disconnecting and self-rationing, and lowering the cap further reduces the number of households who can benefit.

As introduced for the 2021/22 scheme year, individual debt write-off is capped at £2,000 per household each scheme year. The latest available data on average amounts of energy debt is from 2019, which found that the average debt for a gas customer is £400.[67] This was before Covid-19, and it is not yet clear what impact Covid-19 will still be having by 2022/23 on households' ability to heat their homes. Additionally, the average debt level does not take into

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[65] Citizens Advice, 'Switched on: improving support for prepayment consumers who've self disconnected' (2018), https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/PPM%20self-disconnection%20short%20report.pdf

[66] Energy suppliers are already required under their licence conditions to provide debt management assistance. Ofgem expects suppliers to adhere to the Ability to Pay principles.

[67] "Consumer Vulnerability Strategy: reporting on progress", 2019, Ofgem, https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/protecting-and-empowering-consumers-vulnerable-situations/consumer-vulnerability-strategy/consumer-vulnerability-strategy-reporting-progress

account individual households' particular circumstances, such as the number of occupants, income, and required energy use. We are therefore proposing to maintain the current household cap. However, we would welcome views on whether the individual debt write-off cap should be lowered to reflect average debt levels, to allow more customers to benefit from debt write-off.

As per current rules, the debt write-off cap would only be applied to reducing or cancelling debts and would not apply to the money suppliers spend on other debt assistance, such as advice on financial management and energy efficiency measures to reduce energy bills.[68]

Questions:

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.**

Boilers and central heating systems

Currently, there are Industry Initiatives projects through which new boilers and central heating systems are installed in households in, or at risk of, fuel poverty as a replacement where the existing boiler or central heating system has ceased to function properly and where repair is not possible. This help is often essential to prevent people living in cold homes and facing the devastating effects that this can have on those most vulnerable.

The net zero challenge presents a dilemma. Eventually, we will all have to switch away from fossil fuel heating in our homes, but, currently, there is no lower-cost alternative to gas boilers or gas-fuelled central heating systems. Therefore, in the absence of such an alternative, we propose to continue to allow the installation of mains gas boilers or central heating systems under Industry Initiatives, subject to them being installed where a person in the household has a specific vulnerability to living in a cold home. We will keep this under review as new technologies become more affordable and readily available.

[68] Where both debt write-off, financial assistance, and any other Industry Initiative are given in combination, suppliers will need to clearly demarcate the types of activities provided and the level of support provided under each.

Eligible households would be those in, or at risk of, fuel poverty and vulnerable, as defined in the vulnerability principle of the Sustainable warmth strategy.[69] These households would be those with a person who is:

- 65 or older;
- Younger than school age;
- Living with a long-term health condition which makes them more likely to spend most of their time at home, such as mobility conditions which further reduce the ability to stay warm; or
- Living with a long-term health condition which puts them at higher risk of experiencing cold-related illness; for example, a health condition which affects their breathing, heart, or mental health.

No other new fossil fuel boiler or central heating system installations in individual households would be permitted under Industry Initiatives. Repairs of fossil fuel boilers or central heating systems in distress would continue to be permitted.

There are existing and emerging technologies in the market, including hybrids of gas boilers and heat pumps, and gas boilers which can be switched to hydrogen. We considered limiting the installation of gas boilers in the situation outlined above to solely these technologies, as this would provide more sustainable heating solutions and would further support the Government's Net Zero goals. However, the primary policy intent of allowing fossil fuel boiler repairs and gas boiler replacements in limited circumstances under the WHD Industry Initiatives is to provide emergency support for vulnerable households. The higher installation costs of newer measures compared to more traditionally fuelled boilers, and the technical expertise required to install them, may make them less affordable and practical to use in emergency situations. We will keep this under review as new technologies, such as hydrogen ready boilers, come onto the market.

Whilst the repair and replacement of boilers and central heating systems is a small part of Industry Initiatives currently, we want to guard against it being used entirely for that purpose. Funding for Industry Initiatives in general is limited. While the replacement of boilers provides immediate support for households in need (as does financial assistance and debt relief, for instance), other Industry Initiatives provide longer-term support through improving energy efficiency and other measures, and we want to ensure that funding is distributed across the range of support. Other Industry Initiatives, such as debt relief, already have caps in place for this reason. Therefore, we propose to limit spending on all boiler replacements under Industry Initiatives to £8 million per scheme year from 2022/23. There are other government schemes, including the Energy Company Obligation, that provide non-emergency support for boilers and central heating systems for households. Introducing this limit would ensure that other Industry Initiatives providing longer-term solutions would continue to be funded, while ensuring that

[69] Sustainable warmth: protecting vulnerable households in England https://www.gov.uk/government/publications/sustainable-warmth-protecting-vulnerable-households-in-england

boiler and central heating system replacements can continue to be provided to households in emergency situations.

As introduced in the 2021/22 scheme year, all installers of boilers and central heating systems under WHD from 2022/23 would continue to be required to be registered with TrustMark and must lodge measures in the TrustMark Data Warehouse. In addition, boilers in high-risk properties and all central heating systems would continue to have to meet PAS2030:2019 and PAS2035:2019 standards.

Questions:

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?**

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

Supplier participation

Reducing and removing the obligation threshold

Since the 2020/21 scheme year, electricity suppliers with at least 150,000 domestic customer accounts (or who are part of a group of electricity or gas supply companies which together have 150,000 or more electricity or gas domestic customer accounts) across Great Britain are obligated to deliver Core Group rebates under the WHD, with 23 having met that criterion in 2020/21.[70] The threshold for the non-core obligations, including the delivery of rebates to the Broader Group and Industry Initiatives, is set at 250,000 domestic customer accounts. Smaller suppliers (i.e. with fewer than 150,000 domestic customer accounts) can voluntarily participate in delivering Core Group rebates under the scheme – two suppliers opted to participate in 2020/21.

Originally, a threshold was introduced to limit barriers to entry in the energy retail market and encourage competition at a time when the largest six energy suppliers had around 99% of the market share in Great Britain. Since then, the market has undergone a substantial transformation with increased rates of switching and the market share of the largest six energy suppliers (now including OVO's market share after the acquisition of SSE) has fallen to 70%, with the number of domestic suppliers (electricity, electricity and gas, and gas) at 52 in December 2020.[71]

The Government committed to consulting on how the energy supplier thresholds for WHD, and the Energy Company Obligation, should be removed in the Energy White Paper, to ensure administrative simplicity and consistency. This built on the retail markets consultation in 2019, in which the Government noted that any changes to thresholds would need to be facilitated by improvements in data matching to reduce the burden for suppliers of identifying eligible customers.[72]

While around 99% of domestic customer accounts would be with suppliers above the 150,000 threshold, based on the most recent data, the remaining 600,000 customers with smaller suppliers are not able to benefit from rebates. The existence of a threshold means customers eligible for the WHD either do not switch to non-obligated suppliers or lose out on the WHD if they do. The Government believes that all consumers should benefit from good value and innovative deals and not face additional barriers to engaging in the energy market. Whilst there is any chance of losing WHD through switching, some consumers who currently receive WHD may be less likely to consider switching to mitigate this risk.

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[70] Where a supplier supplies dual fuel to a domestic customer, it is treated as a supply to two domestic customers for the purposes of the threshold.

[71] Data correct as of March 2021, Ofgem Data Portal: Electricity supply market shares by company: Domestic (GB) - Q3 2020; Number of active domestic suppliers by fuel type (GB): https://www.ofgem.gov.uk/data-portal/retail-market-indicators

[72] Flexible and responsive energy retail markets consultation, https://www.gov.uk/government/consultations/flexible-and-responsive-energy-retail-markets

Given that obligated energy suppliers bear the cost of participation, it means that suppliers which are not obligated have a competitive advantage, through either offering cheaper tariffs or having higher profit margins from tariffs priced comparably. This creates an uneven playing field for suppliers, disrupting important price signals.[73] This also means that the customers of unobligated suppliers do not contribute to the scheme, creating inequality in the market.

The higher costs the thresholds place on larger suppliers also potentially helps to propagate loyalty penalty pricing where, to compete in the acquisition market, suppliers may seek to recover more of the costs of funding WHD through their default tariff prices.

A reduction and eventual removal of the threshold would help address these issues.

In considering how to reduce the threshold, it is important to ensure that the administrative costs of meeting the obligation imposed on smaller suppliers do not represent a disproportionate burden. This could be an additional barrier to entry for new suppliers, therefore limiting competition. It is also important that customers, especially those in vulnerable circumstances, are not exposed to potential increased disruption or harm as a result of lower participation thresholds, for instance if suppliers are unable to fulfil their obligations.

The proposed reforms, allowing more low-income and vulnerable households to be identified through the replacement of the Broader Group with the Core Group 2, with the majority of rebates provided automatically, reduces the administrative burden on suppliers relative to the current scheme. It also removes the risk that suppliers would have insufficient eligible customers to fulfil their Broader Group obligations.

However, we currently have very limited evidence of the likely administrative impact and costs of delivering the reformed WHD scheme on smaller suppliers; in the consultation for extending the scheme to 2021/22, we asked for evidence on the costs of delivering the current scheme, responses to which came from larger energy suppliers. Through this consultation, we are aiming to gather further evidence on the likely costs for smaller suppliers.

In the last few years, the cost of delivery of Industry Initiatives schemes has been significantly reduced by the existence of well-established projects run by third party organisations (such as the Park Homes Warm Home Discount Scheme), which allow a variety of suppliers to provide funding and reduce set up costs which may disproportionately impact smaller suppliers.[74]

Staged approach

Initially, we propose to reduce the threshold for full participation in the scheme from April 2022 to electricity suppliers with at least 50,000 domestic customer accounts in Great Britain[75] (or who are part of a group of electricity or gas supply companies which together have 50,000 or

[73] The fixed term tariff market is particularly competitive. To maintain or grow market share, suppliers are incentivised to price closely to the lowest price in the market. Where some suppliers do not experience obligation costs, they may have a greater ability to price below what the rest of the market can sustainably afford.
[74] Industry initiative projects can be submitted for approval to Ofgem with a letter of support from each participating supplier, with each supplier contributing to projects by transferring funds to the delivery partner.
[75] Where a supply of dual fuel is treated as a supply to two domestic customers.

more electricity or gas domestic customer accounts).[76] Obligated suppliers would deliver rebates under both Core Group 1 and Core Group 2 and be subject to the minimum Industry Initiatives spending obligation. It would allow for one year of operation under the revised scheme with a smaller number of participating suppliers than would be the case if we reduced thresholds further to mitigate the risks of operational problems.

This threshold has been chosen as suppliers with fewer than 50,000 domestic accounts would likely have a very low number of customers eligible for automatic rebates and as such, they and the Government could face a disproportionate cost in reaching them in the relatively little time to prepare for the 2022/23 scheme year. Energy suppliers below the participation threshold would be able to voluntarily participate in the delivery of rebates, for both Core Group 1 (as per current rules) and Core Group 2.

[76] 50,000 domestic accounts is also the threshold for certain supply licence conditions, such as the requirement to offer a variety of payment methods, including cash and pre-payment meters to their customers (SLC 27). However, many suppliers below the threshold do offer these payment methods voluntarily.

Table 5 Number of suppliers by domestic customer accounts[77]

Customer accounts	Number of suppliers with customer accounts equal to or above the threshold	Number of additional obligated suppliers compared to current scheme	Number of customers held by newly obligated suppl iers	Market share of those obligated across Great Britain
150,000	22	-	-	98.85%
100,000	23	1	105,000	99.06%
50,000	26	4	350,000	99.54%
25,000	29	7	450,000	99.72%
20,000	30	8	470,000	99.76%
15,000	33	11	520,000	99.86%
10,000	35	13	545,000	99.91%
5,000	39	17	575,000	99.97%
1,000	44	22	590,000	99.99%
1	53	31	590,000	100.0%

From April 2023 onwards, we propose to reduce the threshold to 1,000 customer accounts. This timing would mean that smaller energy suppliers would have sufficient time to prepare and adapt their tariffs to take account of the obligation, reducing the risk of non-compliance.[78] We believe this strikes the right balance between encouraging switching and creating a fairer market whilst avoiding disproportionate cost and risk. For example, using current data, if we removed thresholds entirely, that would bring nine additional suppliers into the scheme, however the number of potential beneficiaries would be very low, likely less than 50. The cost

[77] Source: Ofgem, based on the number of customer accounts as of 31 December 2020.
[78] Smaller suppliers tend to mainly offer fixed tariffs.

of delivering each one of those rebates would be disproportionately high for government and likely those suppliers as well.

We welcome views on whether this is the right approach, and we recognise that a small barrier to switching may remain. In that context, however, it is worth noting that as long as new suppliers are joining the market each year, even if the threshold were set at zero, there would always be non-obligated suppliers, so it is not possible to remove that barrier entirely.

Table 6 Timeline of supplier participation thresholds

Scheme year	Threshold (domestic customer accounts in Great Britain)
2022/23	50,000
2023/24 and onwards	1,000

We would continue to keep the obligation threshold under review during the course of the scheme, considering the administrative costs of delivering the reformed scheme and the impacts on the energy markets, before taking any further decision on thresholds.

Voluntary suppliers

Like in the current scheme, we propose that suppliers would be able to voluntarily participate in the scheme in 2022/23 if they are below the threshold. Voluntary suppliers would deliver rebates under both Core Group 1 and Core Group 2.

We propose to give powers to Ofgem to assess and approve any applications from suppliers for voluntary participation.

Thresholds in Scotland

Under the Scotland Act 2016, some aspects of the WHD remain reserved to the Secretary of State, including supplier participation thresholds for the scheme.

Scottish Ministers may decide to design a new scheme or maintain the current rules in Scotland. The proposed reduction of the threshold in England and Wales would be enabled, to an extent, by the reduction in administrative costs on suppliers from the proposed expansion of data matching and identification of the majority of eligible households automatically. If Scottish Ministers decided to maintain the current scheme in Scotland, there is unlikely to be a similar reduction in the administrative costs. We will therefore continue to work with the Scottish Government and will consult with stakeholders on appropriate thresholds in Scotland at a later point.

Reconciliation

Under the current scheme, Ofgem runs reconciliation exercises to ensure suppliers' Core Group rebate spend is proportionate to their market share. We propose to extend these reconciliation arrangements to cover both Core Group 1 and Core Group 2 rebates. Although the scheme would cover England and Wales only, the reconciliation would be calculated according to energy suppliers' market shares in Great Britain.

As with the provisions for the 2021/22 scheme year, we intend for Ofgem to run two reconciliation exercises, an interim reconciliation and an end-of-year reconciliation. These would cover both Core Group 1 and Core Group 2 rebates in these exercises. The first reconciliation would be run around January, when energy suppliers would have paid most of the rebates under the scheme on the basis of the data matching. The second reconciliation would be run at the end of the scheme year, to take into account the number of rebates in the end of year reporting and to include the relatively smaller number of rebates claimed through the helpline.

If the current scheme continues in Scotland, the arrangements for reconciliations would be the same, in line with the 2021/22 scheme year arrangements.

Supplier of Last Resort

The Supplier of Last Resort process ensures that, when an energy supplier fails, customers have continuity of energy supply. The process is run by Ofgem and allows for the orderly transfer of the failing supplier's customers to a different energy supplier, called the Supplier of Last Resort (SoLR).

Currently, the obligations under the WHD scheme apply to electricity supply licence holders. Therefore, when a licence is revoked, the obligation ceases and is not automatically transferred onto the SoLR. In previous years, SoLRs have chosen to voluntarily honour rebates of the failing suppliers. Core Group rebates were included in the reconciliation mechanism, while Broader Group rebates or Industry Initiatives spending counted towards their non-core obligation.

We do not propose introducing a mandatory requirement for the SoLR to take on the WHD obligations of the failing supplier. However, as part of appointing the SoLR, Ofgem takes into consideration any proposed arrangements for ensuring WHD customers receive their rebates. We have also introduced the ability of suppliers to carry over up to 10% of overspend on non-core obligations under the current scheme if they voluntarily take on all or part of a failed supplier's non-core spending. We would continue to allow this for Industry Initiatives under the reformed scheme.

We are interested in views on whether this is the right approach, and whether there are other alternatives to mandatory requirements.

Supplier qualification and obligation setting dates

Under the current scheme, suppliers must notify Ofgem on or before the 14 February prior to the scheme year starting of the number of domestic customer accounts they had as of 31 December the year before. From this information, Ofgem determines which suppliers will participate in that scheme year and their obligations. Energy suppliers also have to provide this information to Ofgem by 1 February for determining obligations under the Energy Company Obligation. To align these obligations and thereby streamline both Ofgem and suppliers' administrative activities, we are proposing to change the WHD date by which suppliers must notify Ofgem to 1 February.[79]

From 2023, we also propose to introduce a second customer reporting date for suppliers, closer to the qualifying data for the Core Groups. We believe this is necessary to reduce the current distortion that exists due to the time from customer numbers being reported as of 31 December and the qualifying date in July. This distortion could become proportionately greater between suppliers as we reduce the threshold to 1,000 customer accounts. For example, if we maintained the current reporting, a supplier which reports 1,001 customer accounts as of December may have 10,000 customer accounts by the qualifying date but following the reconciliation would have only paid for the equivalent of its 1,001 accounts.

We recognise this would create an additional reporting burden, but we believe the second reporting date is necessary to make the scheme fairer, whilst the date for determining which suppliers are obligated needs to be maintained to allow suppliers sufficient time to prepare for delivery, for example data testing with DWP.[80]

The date by which Ofgem must notify suppliers of their Industry Initiatives obligations under WHD would remain 14 March prior to the scheme year starting.[81] As more energy suppliers would be participating in the WHD scheme as a result of lowering the supplier participation thresholds, this gives Ofgem more time to calculate and determine suppliers' WHD obligations.

Questions

23. **Do you agree that the obligation threshold for the whole scheme should be reduced from April 2022 to 50,000 domestic customer accounts? If not, what would you suggest is a more appropriate threshold and why?**

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

25. **Please provide evidence of costs of delivering Core Group rebates, your estimated costs of delivering to Core Group 2, and the costs of setting up**

[79] For 2022/23, this date would be set as the fourteenth day after commencement of the implementing Regulations, in line with provisions for previous years where the relevant Regulations may not have been in place by the original deadline of 14 February before the scheme year was to start.
[80] The reporting as of 31 December would continue to be needed for setting other obligations regardless of WHD.
[81] For 2022/23, this date would be set at 41 days after the commencement date of the Regulations.

Industry Initiatives (specifying if this is a multi-supplier scheme), in cost per pound of support delivered.

26. **Do you agree with the proposed continuation of the arrangements for the reconciliation mechanism, extending to cover both Core Group 1 and Core Group 2, and that this should similarly continue in Scotland, in the event that the current WHD scheme continues in Scotland?**

27. **Do you agree that we should continue with the current Supplier of Last Resort (SoLR) arrangements and not introduce a mandatory requirement for an SoLR to take on the WHD obligations of a failing supplier? What alternative arrangements could be put in place that may encourage the SoLR to take on those obligations, including in relation to Industry Initiatives?**

28. **Do you agree with the proposal that Ofgem should assess and approve applications from suppliers seeking to participate voluntarily in the scheme?**

29. **Do you agree that from 2023 we introduce a second customer number reporting date?**

Administration of the scheme

Scheme reconciliation operator

Ofgem has been the administrator of the scheme since it began in 2011. Given the WHD is an obligation on energy suppliers which are also licensed and regulated by Ofgem, this has been and continues to be a convenient and efficient arrangement as compliance and enforcement can be dealt with by the same organisation. The administration of WHD has also been low cost, running at around 0.1% of the total annual value of the scheme.

Since 2017/18, Ofgem has also run the reconciliation mechanism for the scheme. The Energy Act 2010 provides the option for the appointment of Ofgem, through the Reconciliation Regulations, as the operator of the reconciliation process. BEIS considers the reconciliation process has been run effectively by Ofgem over the last four years. Their appointment streamlined data management in relation to energy market share information and reduced the number of bodies with which suppliers interact with in relation to the administration of the scheme. Changing the administrator of the reconciliation would introduce risk during a time of big change. Therefore, we propose to keep Ofgem as the administrator of the reconciliation mechanism for the duration of the next phase.

Reporting against multiple licences

We are proposing to allow energy suppliers which have multiple licences to consolidate their obligation under a single licence rather than having to report under each. This would effectively mirror the trading arrangements which exist under the Energy Company Obligation and enable a simplification of reporting. Trading of obligations between suppliers would not be permitted.

Questions:

30. **Do you agree that Ofgem should continue to act as the operator of the reconciliation mechanism for the scheme?**

31. **Do you agree that energy suppliers with multiple licences should be permitted to consolidate under one licence?**

Consultation questions

Improving the targeting of the scheme

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?

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?

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?

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? Please give views on the design and administration of such an Initiative, including the amount of overall funding, the amount of funding available to households, and eligibility.

Data matching and sweep-up

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

6. Do you agree with Government's proposed use of an imputation methodology to fill in missing data or non-matched data to enable rebates to be delivered automatically to a greater number of people?

7. Do you agree with the proposed approach to setting a qualifying date?

8. Do you agree with the proposed sweep-up and high-energy-cost verification and challenge process?

9. Do you agree with the proposed permitted alternative data sources for proving eligibility for the rebate?

Overall spending targets

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

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%?

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

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?

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?

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

Industry Initiatives

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.

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?

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.

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?

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

Supplier participation

23. Do you agree that the obligation threshold for the whole scheme should be reduced from April 2022 to 50,000 domestic customer accounts? If not, what would you suggest is a more appropriate threshold and why?

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

25. Please provide evidence of costs of delivering Core Group rebates, your estimated costs of delivering to Core Group 2, and the costs of setting up Industry Initiatives (specifying if this is a multi-supplier scheme), in cost per pound of support delivered.

26. Do you agree with the proposed continuation of the arrangements for the reconciliation mechanism, extending to cover both Core Group 1 and Core Group 2, and that this should similarly continue in Scotland, in the event that the current WHD scheme continues in Scotland?

27. Do you agree that we should continue with the current Supplier of Last Resort (SoLR) arrangements and not introduce a mandatory requirement for an SoLR to take on the WHD obligations of a failing supplier? What alternative arrangements could be put in place that may encourage the SoLR to take on those obligations, including in relation to Industry Initiatives?

28. Do you agree with the proposal that Ofgem should assess and approve applications from suppliers seeking to participate voluntarily in the scheme?

29. Do you agree that from 2023 we introduce a second customer number reporting date?

Administration of the scheme

30. Do you agree that Ofgem should continue to act as the operator of the reconciliation mechanism for the scheme?

31. Do you agree that energy suppliers with multiple licences should be permitted to consolidate under one licence?

Next steps

Following this consultation, we will consider responses and, subject to the scale of change, plan to publish the Government's response setting out the final policy in winter 2021/22. We would then lay regulations which, subject to Parliamentary process, should come into force in the spring of 2022, when the new scheme year would begin.

There would be a further consultation on a policy statement, to be issued by the Secretary of State, setting out the detailed eligibility criteria to be used for determining high-energy-cost properties under Core Group 2.

We would carry out data-matching testing with energy suppliers during spring-summer 2022. Ofgem would also plan to publish guidance consistent with the details of the new policy and the amended regulations.

The Government will continue to work with the Scottish Government on a Scottish WHD scheme from 2022/23 onwards and consult with relevant parties on the necessary provisions to enable a scheme to be in place.

Annex: Imputing missing property variables

For property age and type, we propose to use the physically nearest neighbour to impute the missing data due to the similarities.[82] Property type is the same in 70-80% of cases and age band in 80-90% of cases to those around them. We would identify the nearest neighbours using Ordnance Survey.

The floor area of a property is not strongly related to its neighbours' floor area. Therefore, the Energy Performance Certificate (EPC) floor area would be used, where available (adjusted to be consistent with the floor area definition used by VOA), or, when the property has no EPC, a statistical calculation of the likely floor area based on similar properties.[83]

For property age and type, categories are being imputed. Rather than imputing a single category (e.g. a home is in Age Band 1) a probability is found for each possible category for each home (e.g. a home has a 70% probability of being in Age Band 1, 20% of being in Age Band 2, etc).

These probabilities are found by testing the nearest neighbour approach on properties for which all data is available (most of the housing stock). For example, when the nearest neighbour approach predicts Age Band 1, if the properties are Age Band 1 90% of the time, Age Band 2 5% of the time, and Age Band 3 5% of the time, then these are the probabilities assigned to the imputed categories too.

These probabilities are then used to find the energy costs for each home: the linear regression is used to predict the energy cost for each possible combination of categories. The probabilities assigned to each combination are then used as weights to calculate the weighted mean average of the energy cost. This weighted mean gives the best possible estimate of the energy cost of a home with the data available.

To illustrate (with fictitious data and costs), a flat with a floor area of 45 meters squared may have a 60% probability of being Age Band 1, which corresponds with a predicted energy cost of £1100. It could then have a 40% probability of being Age Band 2, with a predicted energy cost of £1300. The weighted mean would then be calculated to estimate the final energy cost: (0.6 × 1100) + (0.4 × 1300) = £1180. Note that the costs shown are for illustration only and do

[82] For nearest neighbours only the closest neighbour is used, with other properties in the vicinity not used. This approach was found to produce the most accurate estimates. Coordinates are to the nearest meter in two dimensions (verticality is not considered). For properties which share the same coordinates, such as flats, the next property is chosen using the property number. For example, a block of flats may consist of flats 1 to 20, all with the same coordinates, in which case the nearest neighbour to flat 1 would be taken as flat 2.

[83] When a property going through imputation for floor area has no EPC, the floor area is imputed using the modal average of properties in the same local authority and with the same age band, property type and council tax band. The imputed floor area is, on average, 8m² from the actual floor area for properties with an EPC, with 80% of properties having an imputed floor area within 15% of the actual floor area. For properties without an EPC the imputed floor area is 16m² from the actual floor area on average, with 80% of properties having an imputed floor area within 25% of the actual floor area.

not correspond to the actual estimated costs for properties with the characteristics given. For the real imputation process there would be more than two categories for property age.

In rare cases we may not be able to impute values, as we may not be able to identify alternative data to use for the imputation. In these rare cases, we would consider writing directly to the household to allow them to come through the “sweep-up” process.

This consultation is available from: www.gov.uk/government/consultations/warm-home-discount-better-targeted-support-from-2022

If you need a version of this document in a more accessible format, please email enquiries@beis.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.