Citizens Advice response to Warm Home Discount Scheme 2018/19 consultation

April 2018

citizens advice

Summary

Overall we agree with the proposed approach for this scheme year (2018/19). Given the short timescales to get the scheme up and running, making substantive changes to eligibility and the customer journey would be difficult at this point.

We support the inclusion of financial assistance under the industry initiatives. Providing credit for prepayment customers at their time of need is likely to add much greater value than writing off debt. Our recent research also shows it is likely to benefit the low income and vulnerable households that are the target of this scheme[1].

We believe the time has come to reconsider the supplier threshold for participating in the scheme. We accept the timescale argument for 2018/19 and also have some sympathy with the desire to protect new entrants from burdensome set up and administration costs. However this exemption significantly distorts competition, acts as a barrier to getting the best deals for low income households, unfairly exempts some households from paying towards the costs of helping the vulnerable and makes the process of deciding if a deal is right more confusing. Also, once data-matching is in place, the arguments based on entry costs should disappear.

These new uses of data also promise to make the scheme much easier for consumers to navigate. The current scheme requires broader group applicants to jump through a series of hoops by a set deadline but without any guarantee of success. A data-matching process would see support brought to those who need it.

We also appreciate that access to more information about a consumer offers the opportunity to target support where it is needed most. We look forward to engaging with the Government's proposals as they are brought forward. However we would be concerned if the changes resulted in some low income families losing a rebate they have come to rely on. We would like the Government to explore ways of providing comprehensive support to all low income and vulnerable households who need it.

[1] Citizens Advice, Switched on: improving support for people who've self-disconnected, April 2018

Consultation questions

1. Do you agree that the cap on Industry Initiatives spending should increase from £30 million to £40 million in 2018/19?

Yes if suppliers can identify effective ways to reduce poverty outside of the provision of rebates they should be allowed to fund them.

Industry initiatives are a useful way to target support and to encourage innovative approaches to ensuring it is effective.

However it is vital that suppliers can provide evidence of the impact of these schemes in order to be sure they are more effective than the equivalent number of rebates would have been.

2. Do you agree that a Local Authority declaration under ECO Flexible eligibility should count as evidence that a household is "wholly or mainly" in fuel poverty and therefore would be eligible for support under Industry Initiatives?

Yes we believe the contact that local authorities have with low income vulnerable people in the community means they are well-placed to decide who is most in need of support.

3. Do you agree that the cap on debt write-off should reduce from £12 million to £10 million in 2018/19?

Debt assistance can be invaluable for helping low income consumers back to a situation in which they can afford their energy again. Our recent research on self disconnection shows that prepayment customers with a debt on their meter are around three times more likely to run out of credit than the average[2].

However as the consultation document makes clear, there should be other incentives and drivers to ensure suppliers are doing all they can to get customers paying for their energy again. It is therefore likely that spending the money on reducing ongoing bills is likely to provide more added value.

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[2] Citizens Advice, Switched on: improving support for people who've self-disconnected, April 2018

We would also like to be sure that where debt is being written off, every effort is made to engage the customer in debt advice so that the assistance has a more holistic and durable impact on the customer's situation.

4. Do you agree that the cap on debt write-off should continue to reduce by 5% in each subsequent scheme year?

We are supportive in principle of further reductions to the cap but an assessment of the effect of reducing the cap should be made before committing to them.

We are also concerned that reducing it to zero would prevent debt write-off being offered in those circumstances where it would be the most effective intervention.

5. Do you agree that Government should expand the list of activities allowed under Industry Initiatives to include the provision of financial assistance with energy bills, including rebates, to households that are particularly at risk of fuel poverty?

Yes - we would like to see more suppliers providing fuel vouchers and emergency credit to prepayment customers under this scheme. Our recent research found that 88% of households who could not afford to top up contained a child or someone with a long term health condition and 87% were in receipt of benefits. This suggests that those receiving to help keep prepayment meters topped up will largely be the low income vulnerable households who are the target of the scheme.

6. Do you agree that spending on the provision of financial assistance with energy bills should be capped at £5m, or 12.5%, of industry initiatives spending? If you think an alternative cap should be set, please provide your reasons.

Providing financial assistance for prepayment customers could have a very direct effect on keeping the heating and the lights on in the homes of low income and vulnerable people. For this reason, if a cap is to be considered, we think it should be set higher than £5m. We estimate that around 140,000 households are going without energy each year because they can't afford to top up their PPM. If the assistance was made equivalent to the normal rebate, as proposed below, £5m would help just 35,000 of these families. The more innovative part of the industry initiatives could be protected by setting an overall cap for both debt write-off and financial assistance at for example 40% with a tighter cap for debt write-off alone.

7. Do you agree that financial assistance with energy bills per household should be equivalent to the amount of the WHD rebate (£140)?

As a default, a similar level seems a fair and equitable approach. However we are encouraging suppliers to tailor their support to the needs of the individual. In terms of providing credit for PPM customers, the amount someone needs should be based on their consumption. Smart meters will give suppliers the ability to make accurate estimates of usage.

Where possible we would like to see assistance tailored to the circumstances of the household so for example, larger families in inefficient homes would receive more support than some living alone in a well insulated apartment.

8. Do you agree that Government should issue Regulations covering the scheme until 2020/2021 with the proposed review clauses?.

Yes, this approach would give more reassurance over continuity of the scheme and seems a more efficient use of the legislative process. However we would want to be sure that this would not reduce the opportunity to change the scheme or to scrutinise changes proposed by government.

9. Do you agree that the Core Group eligibility criteria should be retained in 2018/19 for those people in receipt of Pension Credit Guarantee Credit?

Yes, given the timescales involved to get the support to those who need it and the current lack of a data-matching process.

10. Should the Government consider further reform to the Core Group eligibility in future?

We agree that the process of applying could be made much simpler. Our advisers tell us that for the broader group, the discount is difficult and time-consuming for people to access with no guarantee of success. These application requirements are likely to act as a barrier to support for some vulnerable customers who need help the most.

Data-matching provides an opportunity to build the support around the customer and one that should not be missed.

While the process needs improving and we agree that those with higher costs should receive more support we would have concerns if the new approach meant that the rebate was taken away from low income vulnerable households who have come to rely on it.

We think the government should explore ways to provide more help so that the system is made to work for consumers without creating a hole in already very stretched household budgets.

11. Do you agree that we should amend the Broader Group standard criteria to include UC recipients in work or self-employed with monthly net earnings not exceeding £1,349, and maintain the other qualifying criteria (i.e. in receipt a limited capability for work element, or a disabled child element, or parental responsibility for a child under the age of 5)?

Yes. Those on low incomes are much more likely to be in fuel poverty regardless of employment status.

12. Do you agree that we should amend the Broader Group standard criteria for 2018/19 to include ESA recipients who are in a Work-Related Activity Group, and UC recipients in the Limited Capability for Work (LCW) group?

Yes.

13. Do you agree that the standard criteria for the Broader Group cover the right benefits and take the right approach across the benefits covered, but with the potential for reform from 2019/20?

Yes, given the timescales involved to get this support to those who need it. We agree with the ambition to reform the criteria as well as the scheme as a whole in the coming year. It is important changes and the data-matching to facilitate them, are put in place as soon as possible to ensure those who need help are able to access it.

14. Do you agree that the value of the rebate should be £140 in 2018/19?

Yes, given the timescales involved to get this support to those who need it. However the review that is being proposed for this year should consider how to provide more support according to needs of the household.

15. Do you agree with the current supplier obligation threshold?

The current threshold of 250,000 customers has been made to look outdated by changes in the market. At the time the small supplier exemption was introduced in 2011, the Big 6 accounted for over 99% of the household market. Today, that figure has fallen to around 80%[3], and it is likely to fall further in the coming years based on current trends. A consequence of this is that the coverage of the exemption has broadened. Around 8% of customers - ~1-in-12 - are with suppliers who are not obligated to offer the WHD.

This is likely to be having a range of negative effects on both competition and social equity - with particular harm being felt by consumers who are eligible for the WHD.

The WHD is one of three policy cost exemptions (along with ones relating to the Energy Company Obligation and Feed in Tariffs) that small suppliers benefit from. The value of these three exemptions in combination is around £51/year in avoided policy costs[4], which are likely to flow through to those suppliers offering lower tariffs. This has a range of consequences.

Firstly, that best buy tables may not reflect the underlying efficiency of businesses, and may be dominated by those who have exemptions rather than those who are the leanest. This uneven playing field may result in perverse incentives on the non-exempt - eg that they may either choose to exit the acquisition market because they cannot compete with these subsidised prices, or that they may allocate more costs to their sticky customers in order to try and compete against these subsidised deals. Indeed, there is some evidence that the latter is happening, with the CMA's energy market investigation finding clear evidence that the premiums sticky customers were paying over acquisition deals has increased markedly in recent years.[5]

The existence of exemptions may also have perverse consequences for the growth patterns and long term sustainability of supply businesses. Several have told us that their decisions on when to conduct marketing campaigns have been influenced by whether they would be likely to hit the exemptions threshold. We have even seen examples of suppliers consciously deciding to shrink to try and get back below the exemption threshold.[6] Several mid tier suppliers who are now above the exemption threshold have suggested to us that the exemptions threaten the long term prospects of their businesses as there is little prospect that they can compete in best buy tables without the benefit of either the policy cost exemptions of the

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[3] See 'Electricity supply markets shares by company (domestic)' and 'Gas supply market shares by company (domestic),' Ofgem. https://tinyurl.com/ycm2bsow

[4] 'Controlling the consumer funded cost of energy policies: the Levy Control Framework,' National Audit Office, 18 October 2016.

[5] See, eg, Figure 8.25 on page 412 of its final report, which shows the premium paid by standard variable tariff customers over acquisition deals expanding from less than £100 in 2009 to over £300 in 2016.

[6] For example, Flow Energy. https://tinyurl.com/y7pvncfz

small suppliers, or the sticky customer base of the Big 6. This should concern BEIS, because today's growing small suppliers should be tomorrow's mid-sized suppliers. If the latter see their prospects as being actively undermined by the presence of exemptions, then the sustainability of the market model for entry and growth appears flawed.

Crucially, the presence of the exemptions means that many of the best deals on the market are not available to consumers who need the WHD, because they are offered by exempt suppliers. This is an entirely perverse outcome, because it makes it harder for vulnerable consumers - for those who would most benefit from shopping around to reduce their bills - to access the marketplace. Policy should be seeking to encourage those consumers to switch more, not switch less. It also complicates advice provision and price comparison.

Finally, the policy cost exemption is morally questionable on two core grounds. Firstly, because it allows some consumers to be exempt from paying to tackle fuel poverty - and pushes that responsibility on to others. Tackling poverty is a challenge that faces the whole of society, and it is not clear why some should be exempt. Secondly, because the exemption is most likely to benefit those who need it the least. We know from the CMA energy market investigation that more affluent, less vulnerable, customers are more likely to shop around.[7] As a consequence, they are more likely to be with exempt suppliers. This results in the perverse outcome whereby those most able to bear the burden of policy costs are also those most likely to avoid that burden.

We would therefore like to see BEIS move towards the complete removal of the small supplier exemption from providing the WHD (and also FITs and ECO).

We accept the short term arguments - it is unlikely that smaller suppliers could make a reliable and accessible offer in this scheme year.

However once data-matching has reduced the entry costs almost entirely we would expect all suppliers to be contributing to this scheme next year. These smaller suppliers often offer the best deals in the market. By exempting them from the scheme we are asking low income vulnerable households to forgo the much needed support in order to fully participate in the market.

16. How do you think we should deal with the circumstances described above in order to provide a quality, fair service to households?

We agree with the proposed approach - suppliers who fall below the threshold should still be expected to meet their obligations from the previous year where

[7] 'Appendix 9.1: CMA domestic customer survey results,' 24 June 2016.

these are outstanding due to a failure of the process. These suppliers should notify customers when they no longer offer the rebate.

17. Do you agree that the 2018/19 scheme year should end in March 2019?

We agree that it is important that rebates are delivered in the winter months - when they are needed most. However for industry initiatives that involve other help with reducing bills we believe more flexibility on project end dates would compensate for the later start and, by providing more lead-in time, may well increase the effectiveness of those interventions rather than reduce it.

18. Do you agree that if suppliers spent up to 5% more than their non-core obligation in Scheme year 7 of the scheme, then their non-core obligation should be reduced by a corresponding amount in 2018/19?

Yes we agree with the continuation of this arrangement within the proposed limits. However we would note that if obligations are regularly being oversubscribed this adds to the case for more comprehensive support for these households.

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

We do not see any significant risks, particularly for schemes that have been running in previous years and have been judged to meet requirements. For new and innovative schemes it will be important that an assessment is made as soon as possible in order to ensure the projects are aligned to the aims of the scheme.

20. Do you agree that the deadline for suppliers to submit a request to Ofgem to transfer some of their non-core obligation to Industry Initiatives is set to three and a half months before the end of the scheme year?

This seems a sensible approach and gives suppliers assurance around timescales for such applications.

21. Do you agree that any undelivered rebates in scheme year 7 should be added to a suppliers' non-core obligation in 2018/19?

Yes we agree that this arrangement should continue.

22. Do you agree the timeframe for Ofgem to respond to notifications should be amended from 28 calendar days to 20 working days?

Yes.

23. Do you have any other comments you would like to provide?

No.