## Energy Action Scotland response to BEIS Warm Home Discount Scheme 2022-26 Consultation

### About Energy Action Scotland and our work on Warm Home Discount

Energy Action Scotland[1] is the Scottish charity dedicated to ending fuel poverty. Energy Action Scotland has focussed on this single issue since its inception in 1983 and has campaigned on the issue of ending fuel poverty and delivered many practical as well as research projects to tackle the problems of cold, damp and hard to heat homes. Energy Action Scotland works with both the Scottish and the UK Governments on energy efficiency programme design and implementation. Energy Action Scotland welcomes the opportunity to respond to this consultation.

Energy Action Scotland's response focuses primarily on those areas that it considers may impact most on fuel poor and vulnerable consumers. Energy Action Scotland is not a health organisation, but we are concerned about the health impacts of living in fuel poverty and that respiratory conditions which are exacerbated by living in a cold, damp home make up a high proportion of Scotland's excess winter deaths, which are linked to living in fuel poverty.

We provide practical support through several Warm Home Discount (WHD) industry initiatives working closely with 2-3 suppliers each year. In Scheme Year 9, we managed 3 projects across 2 suppliers and supported a fourth project in partnership with National Energy Action[2].

Through those projects we:

- Provided 250 households with a cancer diagnosis with energy efficiency/heating measures or energy efficient appliances and other items such as carpeting and curtains to improve the comfort levels, health and wellbeing of these vulnerable people and their families
- We provided over 250 households with benefits entitlement checks which resulted in over £725,000[3] of additional income being secured.
- We trained over 350 frontline workers to help them advise and signpost to specialist support services that supported 117,250 people[4]

[1] www.eas.org.uk
[2] www.NEA.org.uk
[3] An average of £2,900 of additional value through benefits entitlement checks is delivered on average to supported households based on research and evaluation of programmes produced by NEA
[4] Based on an estimate (from learner feedback) that each learner expects to provide advice to 7 households per week and works approximately 48 weeks a year.

## Summary of our Response

Cold, damp, and unsafe homes continue to cause **unacceptable levels** of unnecessary **hardship** and premature mortality. Energy Action Scotland estimates that on average more than **2000 people**[5] in Scotland die each year due to living in a cold home. The Office for National Statistics (ONS) estimate that that the biggest cause of death was respiratory disease, followed by circulatory health conditions. Both these conditions are badly exacerbated by living in cold homes which are hard to heat and around **30%** of these deaths are **preventable**[6].

Covid-19 is likely to have left many households more exposed to the risks of living in a cold home than ever before. Scottish Government estimates suggest that **fuel poverty** could rise as high as **29%** because of the socio-economic impact of COVID-19. The number of needless deaths is the 'tip of the iceberg' and as well as the devastating impacts cold homes have on their occupant's lives, this problem extends to all of us; needless health & social care costs[7], queues at GPs and A&E as well as delaying the discharge of the most vulnerable patients from hospital. The resulting impact on health services **costs** the **NHS in Scotland** in the region of **£100-200million**.

In response, we believe that the WHD has a significant **positive impact** on making energy more affordable for households that are **struggling to pay their bills**, helping them to stay **warm and well**. Across the whole market, Ofgem say that in Scheme Year 9 (the latest year with available data), 1.06m customers were provided with a core group rebate, a further 1.07m customers were provided with a broader group rebate, and help was provided to more than 450,000 households through Industry Initiatives.

As we stated at the beginning Energy Action Scotland continues to provide vital support via this component of the scheme. Given this vital 'winter lifeline', last year, we joined with NEA and other campaign partners, and urged the UK Government to **extend and expand** the WHD to support more **low income** and **vulnerable households** with rebates off their energy bills and with broader energy advice and debt support, via industry initiatives. The campaign recommended that the scheme should be extended by at least three years, with a larger spending envelope, to provide automatic rebates to a broader group. It also recommended that: The **core group** should remain with **no changes**; That **more suppliers**

[5] Excess Mortality Figures for Scotland 2018/19 indicate that excess mortality was 2060 https://www.nrscotland.gov.uk/files/statistics/winter-mortality/2019/winter-mortality-18-19-pub.pdf

[6] The health implications of cold temperatures on respiratory conditions and on frail and elderly households are well known. These impacts are also intergenerational, with children twice as likely to suffer from asthma or bronchitis if they inhabit cold and damp housing. These issues have been badly exacerbated the Covid-19 crisis. During the colder months, many people will continue to stay at home for longer periods. Alongside the psychological stress and social isolation caused by the virus, too many will have to choose between heating their home adequately and falling into debt or rationing their energy use and living in cold damp homes that are dangerous to their health and can shorten their lives. This can lead to a vicious cycle of hospital admission, discharge, and readmission. Poor housing leads to sharp rises in energy use. A recent independent analysis suggests that, if a second lockdown was re-imposed during winter months, families in cold, leaky homes would face heating bills elevated on average to £124 per month, compared with £76 per month for those in well-insulated homes – a difference of £49 (£48.7) per month. In Scotland this is expected to be between 25-50% higher for those in all electric homes in colder climates.

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should have the WHD obligation; that the rebate should not reduce below **£140**; and that the amount of money available for **Industry Initiatives** should **increase**.

Energy Action Scotland is dismayed that **BEIS** is consulting on WHD in a way that excludes clarity over how WHD will be delivered in **Scotland**. We recognise that the Scottish Government through the provisions of the Scotland Act has devolved powers to deliver a ‘Scottish’ WHD. The Scottish Government has not brought forward any proposals which could be considered in a timely manner to allow for **continuity** in the provision of WHD for 2022 onwards.

Energy Action Scotland believes that is **incumbent** on BEIS to provide at the very least a **default** proposal for Scotland but instead has chosen to bring forward this consultation which if it were to be enacted would be to the exclusion of households in Scotland. These **households** deserve to understand what will be provided to **support** them.

In the absence of such a clear default position Energy Action Scotland is submitting a **full response**, in anticipation that there will be an accommodation consistent with the key elements of this consultation.

Should the proposals in this consultation be applied across GB we are seeking:

1. Improve fairness within Core Group 2
2. Reduce the risks and uncertainty placed on Industry Initiative delivering organisations
3. Ensure there is sufficient funding for energy and income advice

### Improving Fairness within Core Group 2

**We are pleased** that BEIS is **making changes** to the scheme to ensure that rebates are issued automatically, **removing the lottery** that existed within the broader group in previous scheme years. We are pleased that an expanded scheme envelope allows more households to access support than in previous iterations of the scheme together with the commitment to ensure low-income pensioners continue to receive the rebate automatically and smaller suppliers will be required to participate in the scheme.

We are **extremely concerned** about the **unintended consequences** that may come with the automatic targeting of the proposed new ‘Core Group 2’. This group will be automatically selected using a combination of benefits data, as well as an estimation of energy costs. We support the guiding principle that WHD should help the ‘worst first’ but, the proposed methodology creates a significant risk that some households who are currently eligible for support and live on the lowest incomes, could miss out on rebates if they are judged to have lower energy costs especially where those households may require to have enhanced heating consistent with a condition, disability, or other complex situation. The loss of the rebate would be implemented when millions of households are already experiencing an increase in their energy costs and many will see a reduction in their incomes. If households that previously received the rebate miss out in the future, they could face a combined, devastating increase of over £400 to their bills compared to the beginning of this year[8].

[8] Loss of the £150 WHD and £100 price cap increase in April 2021, £150 price cap increase in October 2021.

We believe that to ensure that the programme supports those that need help the most that there is a need to:

- **Use EPC data**, where possible, to ensure that those households with the most efficient homes (EPC A or B) do not receive a rebate, improving the chances of those living in the least efficient homes of receiving support. While we understand that it would not be fair to use EPC data to match households for inclusion, because of the proportion of homes without an EPC, but it would not be unfair to use the data to exclude the lowest cost households.
- Exclude households living in the **largest properties**.
- Use data on the health of occupants. This should include an analysis of the available data to understand the health of householders, and a prioritisation of householders who have a health condition that makes them vulnerable to living in a cold home

The new Core Group 2 eligibility will also mean that every recipient of a rebate will be in receipt of the WHD, and there is no way to qualify for a rebate for the ~50% fuel poor households who do not receive benefits.

We recommend that the value of the rebate is **increased to £150**, with the number of rebates as proposed at 3 million. With rising energy costs, we believe that an increase is due to try to maintain some connection to the levels of comfort previously afforded by the rebate. We believe that the value to households of the rebate is important, but it has lost value in real terms. This is undoubtedly true during 2021 where **default tariff caps** have increased by over £250 per household compared to 2020.

We are extremely concerned about the ability of householders to contest decisions made based on estimated or missing datasets. The proposed household journey through the process is complex and confusing and does not appear fit-for-purpose.

We support a fair appeals process that is designed in a **far more customer centric manner**.

The sweep up process could be significantly improved. It does not serve digitally excluded nor extremely vulnerable people. It assumes knowledge and capacity which may not be present. It further moves people away from the normal first point of contact, the energy supplier, to a government agency. This adds unnecessary confusion to householders and the advice community.

### Reducing the risk placed on Industry Initiative delivery organisations

While the proposal to make **industry initiatives** a mandatory element for suppliers is a **positive** one, the proposals to include two reconciliation mechanisms each year means that there is significant additional risk imposed. We are very concerned with the higher amount of risk placed on to Industry Initiative delivering organisations. Many of these organisations are charitable organisations or not-for-profit companies. Industry initiatives currently are used as a 'buffer', with a variable scheme envelope to compensate for uncertainties around core and broader group spend. This means that Industry Initiative projects are often agreed late in the scheme year. As the scheme administrator does not allow delivery organisations to work at risk (i.e. before a contract has been signed), that increases the delivery risk, but also means that additional capacity must be held in order to deal with fluctuations in demand from energy suppliers.

There is little evidence that multi-year funding is likely to be a feature of WHD and the current annual cycle for project approvals is burdensome and inefficient and fails to support the strategic planning for industry initiative projects. The annual cycle increases the risk of project failure or underperformance as delivery windows shrink.

The proposals do not look to address the significant issues arising from the **Supplier of Last Resort (SOLR)** process. The current SOLR process potentially places householders at further detriment and creates an unnecessary burden for delivery organisations. Under the current rules, SOLRs do not have to take on the WHD obligation of the supplier who has exited the market. This causes two areas of detriment.

1. For those households who were expecting to receive a rebate from their original supplier, who may not receive one with their new supplier.
2. For any organisation that has a contract to deliver an Industry Initiative with the original supplier, as this contract does not transfer over to the new supplier. This means that any work that has already done may not be paid for, leaving a potentially significant hole in the delivery organisation's finances.

We believe that with the inclusion of smaller suppliers, and the significant financial strain that suppliers are currently under, the risk of an obligated supplier exiting the market will increase, and so it is important to ensure that the SOLR process is fit for purpose. We recommend that as part of the SOLR process, that there remains a provision to ensure that there is no detriment to those households that were due WHD and where there are contractual obligations to delivering industry initiative projects.

**Ensuring there is sufficient funding for energy and income advice**

While there has been **no sector wide evaluation** of the WHD Industry Initiative programme to date, much can be derived through Ofgem's reporting on the WHD. In its latest report[9], Ofgem showed that in Scheme Year 9 (2019/20) a total of £37m was spent helping 456,864 customers through industry initiatives. This included direct support provided to more than 400,000 households.

[9] https://www.ofgem.gov.uk/publications-and-updates/warm-home-discount-annual-report-scheme-year-9

The value of these activities can be roughly translated from several sources of information. A summary of an estimated value of activities is shown below, including indicative numbers for SY9. As a reference, the BEIS Impact Assessment for the WHD shows an equity weighted benefit for households of £690m for a total of £350m spent on rebates.

| **Industry Initiative Activity** | # Customers Helped in SY9 | £ spent in SY9 | Estimated Value |
|---|---|---|---|
| Benefit Entitlement Checks | 40,000 | £3.5m | £40m |
| Energy Efficiency Measures | 35,000 | £12.5m | £42m |
| Energy Advice | 300,000 | £9.5m | £30m |
| Debt Assistance | 25,000 | £6.3m | £12.4m |
| Financial Assistance Payments | 11,000 | £631k | £1.2m |
| Mobile Homes | 4,000 | £560k | N/A |
| Referrals | 33,000 | £245k | N/A |
| Management/Admin Costs | | £4m | N/A |
| **Total** | **456,000** | **£37m** | **£125m** |

These conservative estimates show that, pound for pound, Industry Initiatives are potentially more valuable for households than rebates with regards to value for money. Furthermore, advice and measure-based industry initiatives are more valuable than those that are purely financial support (i.e. debt assistance and financial assistance payments).

As well as the value of Industry Initiatives, it is also important to consider which households are reached. The future for rebates is to use data matching to target households. This will mean that that recipient of the rebates will need to be in receipt of a means tested benefit to qualify, as this is the available data set with which to match.

However, many **fuel poor households** are **not in receipt of benefits**, and therefore a significant proportion of fuel poor households will not have access to a rebate. Industry initiatives therefore provide a key avenue for fuel poor households, who do not receive income related benefits, to access the support that they need to keep warm and well at home. It is important that low-income households are supported whether in receipt of gateway benefits or not.

Given the value of industry initiatives, especially that of the advice to struggling households that may not otherwise benefit from the automatic rebates, we are concerned about the level of funding available for such programmes, especially during the first years of the scheme.

To readdress the balance between different elements of the scheme, and to achieve the best value for money, we recommend that there are **fewer rules** on how industry initiative money can be spent, in particular:

- The £5m pot for helping disabled households, and the £3m pot for households that self-disconnect, should not be limited to providing financial assistance, but should also include the other areas of the scheme, including advice and measures.
- There should be no minimum spend for financial assistance.

**Key Recommendations for the WHD 2022-2026**

- The value of the rebate should be **increased to £150**, this will in a modest way begin to address the fall in real terms of the value of the rebate to households. With better targeting of beneficiaries that can have a significant impact on fuel poor and low-income households budgeting over the winter months.
- The second, in-year **reconciliation** for the Industry Initiative budget should be **removed** to de-risk the delivery of projects. This should be replaced by carrying through the reconciliation to the budget for the following year. In the last year of the scheme, this will not be possible. Therefore, the number of rebates given to the Core Group 2 should be changed in accordance with this in Scheme Year 14.
- Rules around spending within Industry Initiative projects should be **less prescriptive**. The proposed rules could result in a reduction of the highest value activities - energy and income advice. The prescriptive rules proposed should not be used to direct funding for industry initiatives, and supplier should have more autonomy to decide which activities to pursue.
- The selection process for **Core Group 2 should be fairer** through:
  - Ensuring that the process is designed in a customer centric manner.
  - Using the available data to rule out households that are least likely to be struggling to stay warm in winter, for example those with EPCs of A or B.
  - Using any available health data to prioritise households living with a health condition that could make them vulnerable to living in a cold home.
- The **sweep up process** should be **improved** to ensure a better journey for households. This should be done in consultations with charities, consumer groups, and households themselves.
- There needs to be a provision in the **Suppliers of Last Resort** process to ensure that there is **no detriment** to any eligible, customer that should be in receipt of WHD.

**Our response to this consultation**

**Question 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?**

No, we agree that the current Core Group cohort should, as it does currently, include those on the Pension Credit Guarantee Credit but would like to see this extended to include those with the Pension Credit Savings Credit rather than that element being part of Core Group 2. Those households who qualify for guaranteed elements of pension credit are likely to have lower overall incomes and greater requirements for higher comfort levels, as defined in Scotland's 2019 Fuel Poverty definition.[10]

This group currently receives the rebate automatically, and often use it as part of their annual budgeting. Removing an automatic rebate would likely make a significant different to the affordability of energy for this group.

**Question 2 – Do you agree with the proposal to replace the Broader Group with a new Core Group 2 who receive the rebates automatically, rather than having to apply?**

Yes, we believe that there should be greater automation. If done well and adequately resourced, should ensure a much fairer scheme, providing a better customer journey for qualifying households and ending the need to be aware of the scheme and to apply for a rebate if part of the broader group.

**Question 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?**

No. we do not agree with the whole approach taken to determine the eligibility criteria for Core Group 2.

The first part of the data matching process, using data from DWP must identify the poorest households in receipt of means tested benefits. We recognise that there needs to be a limit in the eligible benefits to those households who are in receipt of means tested benefits, excluding those benefits that are not means tested, particularly as the total amount of funding available will not provide rebates for all households eligible under the income criteria.

However, we do not support the second part of the data matching process. We do not believe it will result in a fairer scheme that more closely meets the desirable outcomes. Aside from the fact that the proposed data set creates a significant discontinuity across GB we believe it to be fundamentally flawed. This is for several reasons.

[10] https://www.legislation.gov.uk/asp/2019/10/enacted

We do not believe that the use of sort of data that the valuation office generates, to estimate energy usage is robust, something that the consultation itself appears to state: “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”. For 50% of cases to have more than a 10% inaccuracy implies that there could be significant errors in the system. This margin of error is too high and is not consistent with achieving high quality support to some of the most vulnerable households in GB.

The data set proposed lacks sufficient sophistication to truly reflect the complex factors that result in people being in fuel poverty. It seeks to identify a low common denominator which is far removed from the reality of the variation of property types, construction, heating sources, thermal efficiency of properties and the individual health requirements and associated levels of thermal comfort for those households.

Energy Performance Certificate data would be a more reliable reference to support better targeting.

We believe that it would be fairer to:

- Using EPC data, where possible, to ensure that those households with the most efficient homes (EPC A or B) do not receive a rebate, improving the chances of those living in the least efficient homes of receiving support.
- Excluding households living in the largest properties, where floorspace exceeds 110Sq meters. This group has a relatively low proportion of households in fuel poverty (although we would be keen to understand whether this remains true for larger low-income households living in larger homes).
- Using data on the health of occupants. This should include an analysis of the available data to understand the health of householders, and a prioritisation of householders who have a health condition that makes them vulnerable to living in a cold home, as per the Nice NG6 guideline.

**Question 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.**

Yes, we believe that providing a clear budget allocation intended to help households containing a person with a disability is a reasonable approach but that this should take account of the recommendations of the health and disability charities.

We do not believe that there are sufficient safeguards in place to ensure that disabled customers do not suffer detriment over other customers. There needs to be equality guaranteed in WHD. It is important that disabled customers can fairly access the supports available to other customers through eligibility for the automatic processes and/or support through industry initiatives.

**Question 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?**

No, we support the use of data-matching to target assistance to recognised low-income households, but we do not support the process regarding energy costs.

**Question 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?**

Yes. For DWP data or data that might be held by Social Security Scotland, but we do not support any other element of this.

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

Yes. Although the proposed approach places a burden onto those organisations that delivery Industry Initiatives (as the final Industry Initiative obligation for each supplier will not be known until after the qualifying date), we believe it is important to find those households that are most likely to be vulnerable in the coming winter. If this process were to be started earlier and consistently with suppliers, there would be potential for missing more households that qualified for benefits later in the year.

We believe that should be greater consistency applied across suppliers regarding any windows of opportunity that may be required for individual customers. There is currently a great deal of inconsistency of approach ranging from one-week windows to open ended process that can often be closed as allocation limits are reached. If there was an industry wide approach, then this would be easier to communicate collectively and would assist customers and the advice sector in ensuring that those that need help the most do not miss out.

We remain concerned about the timing of advice that may encourage customers to switch suppliers. If this comes after determinations of eligibility to receive WHD then there is a potential risk that customers miss out on the value of the rebate. It is possible that their eligibility may not be considered by switching services. We believe that there should be an obligation to ensure that no one misses out when they have been assessed as eligible, even if they voluntarily switch supplier. It wasn't clear to us if the approach taken for existing Core Group WHD eligibility will be carried to the new Core Group 2 whereby even if a customer switches, that at the qualifying date, they will still receive the automatic payment from that supplier even if they have moved.

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

No. we believe that the sweep up process could be significantly improved. The process does not appear to have been designed in a customer centric manner.

It is our view that what is proposed will result in a poor customer experience and unacceptable levels of stress and detriment to vulnerable people.

We recommend the Department adopts inclusive design principles and seek feedback directly from current recipients on a more streamlined process for households to contest the decision to remove their current eligibility for a rebate. This must include the ability of households who are not online to be able to challenge these decisions. Without good governance around the selection algorithm, there is a significant risk that the process is perceived as unfair and that the households in most need of a rebate miss out through no fault of their own.

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

No. we believe that the overall process for the sweep up process is flawed and requires improvement.

For the proposed permitted alternative data source, it does not seem sensible for a low-income household to have to pay for an EPC to prove their eligibility. To have to spend £60 to potentially receive a £150 rebate does not seem reasonable. We recommend that BEIS and the devolved governments must consider how EPCs could be funded for the poorest households, not only to ensure that the WHD can be targeted as well as possible, but also to make the most effective decisions in achieving the fuel poverty targets. We believe that this is important in our journey to NetZero and starting with data set that is not robust, nor fit-for-purpose in either the short, medium, or long term is a compromise worth making.

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

Yes. we agree with the overall spending targets, we note that while three million households will qualify for the WHD across Great Britain, there are almost 4 million fuel poor households yet in Scotland the proportion of fuel poor households was approx. 25% in 2019[11] with Scottish Government estimates that this was set to rise potentially as high as 29%[12]. Yet there is little recognition of this disparity and inequity in the proposed methodology which would allocate a budget to any 'Scottish' scheme.

We believe that to allocate funds based on the meter points will cause significant to detriment to households in Scotland. Furthermore, the scheme targeting is such that approximately half of recipients are not likely to fuel poor. This means that there are a considerable number of households that may not receive support.

We appreciate the reasons why not all fuel poor households will receive support through the WHD, it is imperative that there is sufficient funding to improve the energy efficiency of fuel poor homes to sustainably reduce their energy costs. It must be remembered that the goal should be that those that need help the most should receive it so BEIS and the devolved governments much do more to support those in fuel poverty particularly where they are not supported by programmes that intended to help them.

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[11] https://www.gov.scot/publications/scottish-house-condition-survey-2019-key-findings/pages/2/

[12] Experimental analysis of the impact of COVID-19 models as high as 29%
https://www.gov.scot/binaries/content/documents/govscot/publications/research-and-analysis/2020/08/scottish-house-condition-survey-additional-analysis/documents/experimental-analysis-of-the-impact-of-covid19-on-fuel-poverty-rates-report/experimental-analysis-of-the-impact-of-covid19-on-fuel-poverty-rates-report/govscot%3Adocument/Experimental%2Banalysis%2Bof%2Bthe%2Bimpact%2Bof%2BCOVID-19%2Bon%2BFuel%2BPoverty%2BRates%2BReport.pdf

**Question 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%?**

No. we do not believe that this is 'fair' to fuel poor households in Scotland. Scotland has the highest rates of fuel poverty in GB. Average energy consumption per household is higher in many parts of Scotland. Households are more likely to be in off-gas areas with all electric heating, our remote and rural communities already suffer detriment due to the application of much higher transmission charges. As it is, the £140 rebate affords less comfort/warmth to households in Scotland than it does in many other parts of GB because of the variability in the efficiency of properties, the heating source and climatic conditions. If there is to be any allocation it should be based on the state of the issue trying to be addressed. A fairer allocation would be one that accounts for the % of fuel poor households in Scotland as a share of all fuel poor households in GB. This might be in the region of 16%[13] of all fuel poor households in GB.[14]

The proposed allocation is not consistent with ***"If an area or service needs more funding to tackle a problem then we all help out. By supporting each other we have more resources to take on big challenges……"*** Scotland Government UK statement August 2021

**Fuel poverty in Scotland is a big challenge**, it is disproportionately high, it affects the health and wellbeing of over 25% of the population and contributes to over 2000 deaths in winter months.

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

Yes. we agree with the proposal to make industry initiatives spending mandatory.

[13] Estimate based on Scotland's share of GB households identified in fuel poverty at 613,000, England 3.1million and Wales 144,000, 2019

[14] 1) There are 3.176 million fuel poor households in England, as per the latest fuel poverty statistics for England. https://www.gov.uk/government/statistics/annual-fuel- poverty-statistics-report-2021 2)There are 144,000 fuel poor households in Wales, as per the latest fuel poverty statistics for Wales. https://gov.wales/tackling-fuel-poverty-2021-2035-html#:~:text=%5B2%5D%20An%20estimated%20144%2C504%20households,11%25%20of%20households%20in%20Wales.&text=%5B6%5D%20Persistent%20pover ty%20is%20defined,of%20the%20past%20three%20years. 3) There are 619,00 fuel poor households in Scotland, as per the latest fuel poverty statistics for Scotland https://www.gov.scot/publications/scottish-house-condition-survey-2018-key-findings/pages/6/#:~:text=In%202018%2C%2025.0%25%20of%20households,extreme%20fuel%20poverty%20in%202018

**Question 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?**

No. we do not agree with the proposed approach. It places a high level of risk placed on to organisations that deliver Industry Initiative delivery organisations, many of which are charities. The approach proposed will mean that industry initiatives will continue to act as a buffer for the rebates portion of the scheme, with a variable envelope to compensate in uncertainties around Core Group 1 and Core Group 2 spend. Currently, the reconciliation mechanism results in Industry Initiative projects often being agreed late in the scheme year. As the scheme administrator does not allow delivery organisations to work at risk (i.e. before a contract has been signed), that increases the delivery risk, but also means that additional capacity must be held in order to deal with fluctuations in demand from energy suppliers.

The proposed level of uncertainty will mean that organisations cannot plan effectively. The result of this will be poorer outcomes for the most vulnerable energy customers.

**Question 14 – Do you agree that the value of the rebate should be set at £150 for the duration of the scheme and that payment of the rebate should be as per current rules?**

Yes. We believe that the value of the rebate has significantly diminished over time and that **£150** is a **modest increase**. We appreciate that the rebate has remained unchanged over a period as energy bills have been relatively' static. However, it has been £140 since 2014/15. A £ is now worth only 87p if inflation over the period is factored. We note that the increase in policy cost per dual fuel customer is set to increase from £14 to £19 which is an increase of over 30%. The net value of the rebate to those that receive it is £126, given that they have paid £14 in advance to receive the rebate and with the higher rebate this merely rises to £131, There will only be a net gain of £5. If it were to remain at £140 and the policy cost increase were to be implemented there would be a detriment of £5 against the net cost of the current rebate.

We cannot be certain how energy costs will perform in 2022 onward, we can be certain that they are unlikely to fall significantly from what have been incredible rises in wholesale prices during 2021 by the end of the period of this generation of WHD. By the time any additional rebate value is provided households on default tariffs will have experienced incredible price increase which in 2021 resulted in over £250 being added to some of the lowest income households' costs, households on pre-payment meters against the costs of 2020.

We appreciate that retaining the lower value will assist more households, but we would prefer to see better targeting of support. Additionally, taking this approach would lead to more positive health outcomes for supported We also believe that there should be some consideration of an additional weighting/uplift to customers in areas such as off-gas, rural and remote where the challenges for households are recognisably higher than in more urban areas.

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

Yes, we agree with keeping the scheme year as 1 April to 31 March.

**Question 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.**

No. There is a large risk that, because of increased energy costs and reduced incomes, the scale of the energy debt as we exit the pandemic will be larger than before COVID-19. The £5 million cap for financial assistance should be reduced to £1m so that it does not compromise other activities that are allowed within the industry initiative programme that have been shown to have larger and longer lasting value to households.

We believe that financial assistance should not be prioritised over other areas of the scheme that are more valuable to households (see table in answer to question 4). We are particularly concerned about the proposed minimum overall spend in this area, when stacked on top of several other proposed minimums. While there is a proposed upward trajectory for industry initiatives over the course of the four years, there is a risk that the overall envelope is reduced by £10m each year due to the uncertainty surrounding the number of households in Core Groups 1 and 2. Furthermore, the proposals around an Industry Initiative to provide rebates to low-income households with a disability will reduce the overall pot that is available for energy advice, income advice, and physical measures by a further £5m. This means that in the first year of industry initiatives, with a £10m uncertainty and two £5m minimums, there could be only £20m left for other initiatives such as energy advice and income maximization. These two areas are particularly valuable for households, especially when compared to rebates and financial assistance.

Indeed, it is recognised that energy advice can often lead to switching suppliers. Ofgem say that this can save a household £260 per year on their energy bill. Even at a very low estimation that only 1 in 10 households receiving advice switch their supplier, this still returns more value than a rebate or voucher, with savings that can be sustained over multiple years.

We recommend that there should be no minimum spend for financial assistance, and that the maximum should be retained at its current level.

**Question 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?**

Yes, we agree with this being capped at £150 consistent with the increase rebate proposal.

**Question 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?**

No. We do not agree with this proposal. This proposal does not seem like the most effective way to reach the desired outcomes. The cause of self-disconnections for financial reasons is not often related to the amount of debt associated with the meter. Prepayment customers have usually built-up debt and are placed on the meter to recover that debt. As per the new ability to pay principles that Ofgem has now placed into the supplier licence, a customer should be on a repayment plan that is affordable and does not result in them self-disconnecting. Because of this, it is rare that prepayment customers will seek help regarding debt, as there is already a system in place for repayment. Our members are much more likely to see clients who use credit meters, who have larger debts that are likely to increase, and then be moved onto prepayment.

Our members tell us that, where prepayment customers do self-disconnect due to their debt, it is because of how the debt is recovered. For example, where the debt sits at the "front of the meter", it is often recovered at quite a high rate (for example 90% of each top up). A much more cost-effective option would be for energy advice surrounding debt for prepayment households, including how to request a debt repayment plan that is more affordable, such as moving the debt to the "back of the meter".

We do believe that debt is a persistent issue and debt write off could be useful. We believe that there should be greater flexibility to provide a range of supports best suited to the individual needs of households in difficulty where it is measured against the outcome achieved rather than an overly prescriptive set of eligible interventions.

**Question 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?**

No. We do not believe that write off should be reduced.

We are concerned about the reducing cap for debt write off, given the nature of likely increased fuel debt that will be incurred due to the impact on households caused by the COVID-19 pandemic. The pandemic has exacerbated the issue of energy affordability in the short term, reducing incomes and increasing energy usage. This has led to increased utility debt. In August, Citizens Advice estimated that 2.8 million UK adults had fallen behind on their energy bills.41 According to the ONS42 56% of Britons say their energy consumption is up and a recent study by Energy Helpline suggested that this could lead to a £1.9bn increase in bills between October and March.

**Question 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 scheme year 2021/22? If not, provide evidence for alternative levels.**

Yes. We support the principle of a **debt write off cap** at **£2,000** to enable energy suppliers and delivery partners to assist customers who have a debt which is likely to be less than 4 years old, even if they have a higher-than-average level of debt. This will allow for more customers to be supported within the limited budget for industry initiatives.

We are however concerned that there could be a negative impact on households, and an unnecessary burden on scheme administration, if the cap does not have some flexibility to allow slightly higher amounts of debt to be cleared. This added flexibility would work to avoid situations where a hard cut off will adversely impact on households in need and could increase the administration costs of the scheme. We therefore recommend a flexibility around the individual cap. We recommend an additional **10%** of **discretionary headroom** if it would help clear a customer’s total debt.

**Question 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?**

Yes. Gas boiler installations funded through WHD should be targeted at households where there is a need to drive higher comfort levels with greater efficiency. This would be consistent to the enhanced heating requirements of groups identified in the consistently with the provisions of the Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019 where Scottish Ministers may identify the household requirements for an enhanced heating regime. Evidence suggests that in a typical semi-detached home, upgrading heating controls and replacing a gas boiler that is around 80 per cent efficient (D rated) with a new boiler will save around £85 a year, whereas replacing a boiler that is 70% efficient (G-rated) could save over £300 a year. This is based on a 70 per cent or below efficient boiler with no heating controls being replaced by an at least 90 per cent efficient boiler with heating controls. Households which have the worst performing boilers could save even more than this. Heating and hot water accounts for about 60 per cent of what a household spends in a year on energy bills, so an efficient boiler makes a big difference, especially to those households which are struggling to pay their energy bills.

Not only that this it results in a greater ability to achieve higher levels of comfort, conducive for health and wellbeing, for lower cost.

These households which Ministers might include are:

- Older people
- People with cardiovascular conditions
- People with respiratory conditions (in particular, chronic obstructive pulmonary disease and childhood asthma)
- People with mental health conditions
- People with disabilities
- People with complex and long-term health conditions
- People with rapidly declining health, including DS1500[15]
- Households with young children

[15] https://www.gov.uk/terminal-illness-benefits

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

No. We do not believe that it is helpful to place an arbitrary cap across all initiatives. It is helpful to understand that there is a guidance figure, but a hard and fast cap would be difficult in practice to enforce nor is in keeping with the principle of fairness based on customer needs and circumstances.

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

Yes. We agree with this proposal

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

Yes. We agree with this proposal.

**Question 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.**

N/A

**Question 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?**

Yes. We agree with this proposal.

**Question 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?**

No. We do not agree that the current SOLR arrangements should continue.

It is important that rebates for each qualified household are paid. It would be unacceptable for consumers to pay towards a policy, for the outcomes of that policy not to be fulfilled.

The current arrangements create a significant risk for organisations that deliver industry initiative. If an obligated supplier fails, there is a possibility that work already completed towards an industry initiative obligation is not paid for. In future, this risk is likely to increase as more smaller suppliers become obligated.

To remove this risk for both consumers and industry initiative delivery organisations, one option is to make the transfer of WHD obligations to the SOLR mandatory. If this was to be done, the SOLR process already provides a mechanism for recovering the extra associated costs through a mutualisation process, or there should be a provision made through WHD that will provide for rebates committed to or contracts for delivery.

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

Yes. We agree with this proposal.

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

Yes. We agree with this proposal.

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

Yes. We agree with this proposal.

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

Yes. We agree with this proposal if this is clearly communicated to all the affected customers.

Submitted by:

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