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Consultation Response:

BEIS Warm Home Discount Scheme 2021/22

Response by the Money Advice Trust

Date: November 2020

Contents

- **Page 2** Contents
- **Page 3** Introduction / about the Money Advice Trust
- **Page 4** Introductory comment
- **Page 6** Responses to individual questions
- **Page 8** Contact details

Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2019, our National Debtline and Business Debtline advisers provided help to more than 199,400 people by phone and webchat, with 1.97 million visits to our advice websites.

In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2019 we delivered this free training to over 981 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to respond to this consultation on the proposal for a one-year extension of the Warm Home Discount Scheme (WHD). This scheme provides crucial support to low-income households in or at risk of fuel poverty across Great Britain, through energy bill rebates, debt write-off and other interventions. This support is particularly vital given the on-going Coronavirus pandemic and we strongly welcome the proposal to extend it.

As a debt advice charity, we welcome the continued inclusion of measures to write off consumer debt and funding for wider fuel poverty interventions, such as debt advice and assistance, within the Industry Initiatives element of the scheme. In recent years, we have seen a significant increase in energy debt among callers to our National Debtline service. This is linked to wider affordability pressures among lower-income households and a growth in arrears on other household bills such as council tax, rent, water and telecoms.¹ The connections between fuel poverty and energy debt should be factored in to the design of the scheme for future years.

Our key views on the proposals for winter 2021/22 are as follows:

- We strongly welcome the proposal to retain the scheme for the winter of 2021/22.
- We recognise that there is little scope to make major changes to WHD at this point in time, or to secure a significant increase in the funding envelope, given the remaining time available before the start of the new scheme year. We therefore agree with the general approach of making specific, limited changes.
- It is vital that the extension is agreed before the deadline of April 2021. Although rebates would not necessarily be affected by a short delay, the industry initiatives element of WHD requires forward planning by suppliers and third parties, and so would be very adversely impacted by any such delay.

In the longer term, we think there should be wider reform of the scheme to ensure that support is available to all households that need it. We would particularly urge the following reforms.

- An expansion in funding for the scheme, enabling it to support significantly more households at the same (or greater) level of discount per customer.
- Automatic payments for a wider group of eligible households and an end to the current 'first-come-first-served' scenario for the Broader Group.

¹ Money Advice Trust, *A decade in debt*, September 2018, available at <http://www.moneyadvicetrust.org/researchpolicy/research/Documents/Money%20Advice%20Trust,%20A%20decade%20in%20debt,%20September%202018.pdf>

- BEIS and Ofgem should use inclusive design principles to improve accessibility. Ideally, the scheme should operate automatically, without friction for individuals having to make repeated applications or provide proof of eligibility.

On Industry Initiatives specifically:

- Debt write-off should be retained as a permitted activity. It should continue to be subject to a cap to ensure a balance of activities within Industry Initiatives, but the practice of lowering this cap annually should not be maintained.
- Given the cap on debt write-off within Warm Home Discount Scheme, in the context of widespread consumer debt and financial difficulty, BEIS should work with Ofgem to review debt write-off mechanisms across the energy industry overall. This review should look to ensure that there is adequate and appropriate access to debt write-off as part of suppliers' broader social obligations.
- While protecting rebates for core and broader group recipients, BEIS should expand and promote the Industry initiatives element of Warm Home Discount. This element of the scheme supports broader interventions, which can make a significant long-term difference to consumer outcomes and represent good value for money.
- Energy debt contributes very significantly to the workload of debt advisers and agencies across the debt advice sector, but funding for advice (outside of Warm Home Discount) is extremely limited. In 2019, 21% of callers to our National Debtline service had energy arrears and 8.5% of callers were signposted to the service by their energy supplier. While we do receive some voluntary donations from energy suppliers, the majority of signposting to our services is carried out by energy suppliers who do not contribute. Signposting customers to sources of independent advice is to be welcomed, but the debt advice sector is already underfunded and faces serious capacity constraints. Given the probable growth of energy arrears in the near future, BEIS should therefore work closely with the Money and Pensions Service and other stakeholders to support the development of a sustainable long-term funding model for debt advice and explore how debt advice and other fuel poverty interventions, such as income maximisation and energy advice, can be effectively combined.

Responses to individual questions

Please note we have responded only to the questions that are relevant to our organisation.

Question 1: Do you agree the size of the rebate should remain at £140 for 2021/22? If not, what size do you think the rebate should be, and why?

We agree that the rebate should remain set at the current level of £140 for 2021/22. This means more households will benefit from the support available, rather than fewer households benefiting from a higher individual payment amount.

Question 2: Do you agree that the Core Group element of the Warm Home Discount scheme should continue unchanged for a one-year extension, to scheme year 2021/22?

Question 3: Do you agree that the Broader Group element of the Warm Home Discount scheme should continue unchanged for a one-year extension, to year 2021/22?

We agree with these proposals in the context of a one-year extension to 2021/22 for both the Core Group element and the Broader Group element.

In the longer term we think the Broader Group element of the scheme should be reviewed and expanded. The current scheme creates a 'first-come-first-served' situation in which many households miss out on support due to the restrictions on the amount of money available in a limited pot. This situation is both confusing for advisers and creates uncertainty for customers. It is also damaging to consumer trust and engagement, since it creates a scenario where customers reach out and request help from their energy supplier – a difficult step for many – only to be refused help despite meeting eligibility criteria.

With a larger spending allocation, the requirement to apply individually could and should be removed, with data-matching brought in instead to ensure the payments are distributed to all those who fall within the criteria.

Question 5: Do you agree that the cap on debt write-off should remain at £6 million for scheme year 2021/22?

Yes, we agree that the cap should remain at the current levels. The debt write-off element of the Warm Home Discount scheme is an important part of the scheme and we are pleased to see there is no proposal to reduce it further, particularly given the likelihood of significant additional need for customers to receive help due to the impact of Coronavirus. We recognise that a cap is appropriate however, so that debt write-off does not crowd out other activities that address fuel poverty by providing advice and support to consumers.

Question 6: Do you agree that there should be a cap on individual debt write-off at £2,000 for scheme year 2021/22? If not, provide evidence for alternative levels.

We would agree that on balance the cap on individual debt write-off should be placed at the level of £2,000. We feel that overall the cap is proportionate and a cap at this level will ensure the money goes further and helps more households. We would suggest that a higher amount of arrears for an individual household is likely to indicate poor supplier practice and that the onus should be on suppliers to support affected customers outside of Warm Home Discount and in line with their other obligations.

Question 9: Should Government keep the financial assistance eligibility criterion of customers living in communities wholly or mainly in fuel poverty? If not, please provide reasons.

We agree that the Government should keep the financial assistance eligibility criterion of customers living in communities wholly or mainly in fuel poverty.

We would however, urge the Government to define fuel poverty in this context using the statutory definition of fuel poverty as in the Warm Homes and Energy Conservation Act 2000:

“A person is to be regarded as living “in fuel poverty” if he is a member of a household living on a lower income in a home which cannot be kept warm at reasonable cost”.

Given that the metric for estimating levels of fuel poverty varies across the three nations where the Warm Home Discount operates, this statutory definition provides the fairest way of satisfying the needs of each nation.

Question 10: Do you agree that, in addition to energy advice, advice about the benefits of smart meters should be provided, so far as is reasonably practicable, to every customer benefiting from an Industry Initiative?

Yes, we agree that advice about the benefits of smart meters should be provided to customers who are benefiting from industry initiatives.

Question 14: Do you agree that the supplier participation thresholds should remain unchanged for scheme year 2021/22?

We would agree, on pragmatic grounds, that supplier participation thresholds should remain unchanged for the scheme year of 2021/22.

However, this threshold should only be kept in place for that limited time frame. In our view it is wrong in principle for some suppliers to be exempt from participating in the Warm Home Discount scheme. It reduces the choice available to consumers and discourages exempt suppliers from taking an 'inclusive design' approach. If, for practical reasons, a customer threshold is unavoidable, it should be set at the lowest possible level.

Question 16: Do you agree with the requirement for the failing energy supplier to report on their paid and unpaid Core Group and Broader Group customers and Industry Initiative spending incurred? If not, please explain your reasons. We welcome views on potential alternative arrangements.

We would support the proposed changes to the scheme to better facilitate the transfer of an obligation when the Supplier of Last Resort transfer process takes place.

Question 20: How might changes to scheme design result in costs to suppliers, for example if eligibility were different in different national schemes, and how could these impacts be prevented or mitigated?

Question 21: Should supplier thresholds for separate schemes be the same in England and Wales and Scotland? Please provide your reasons.

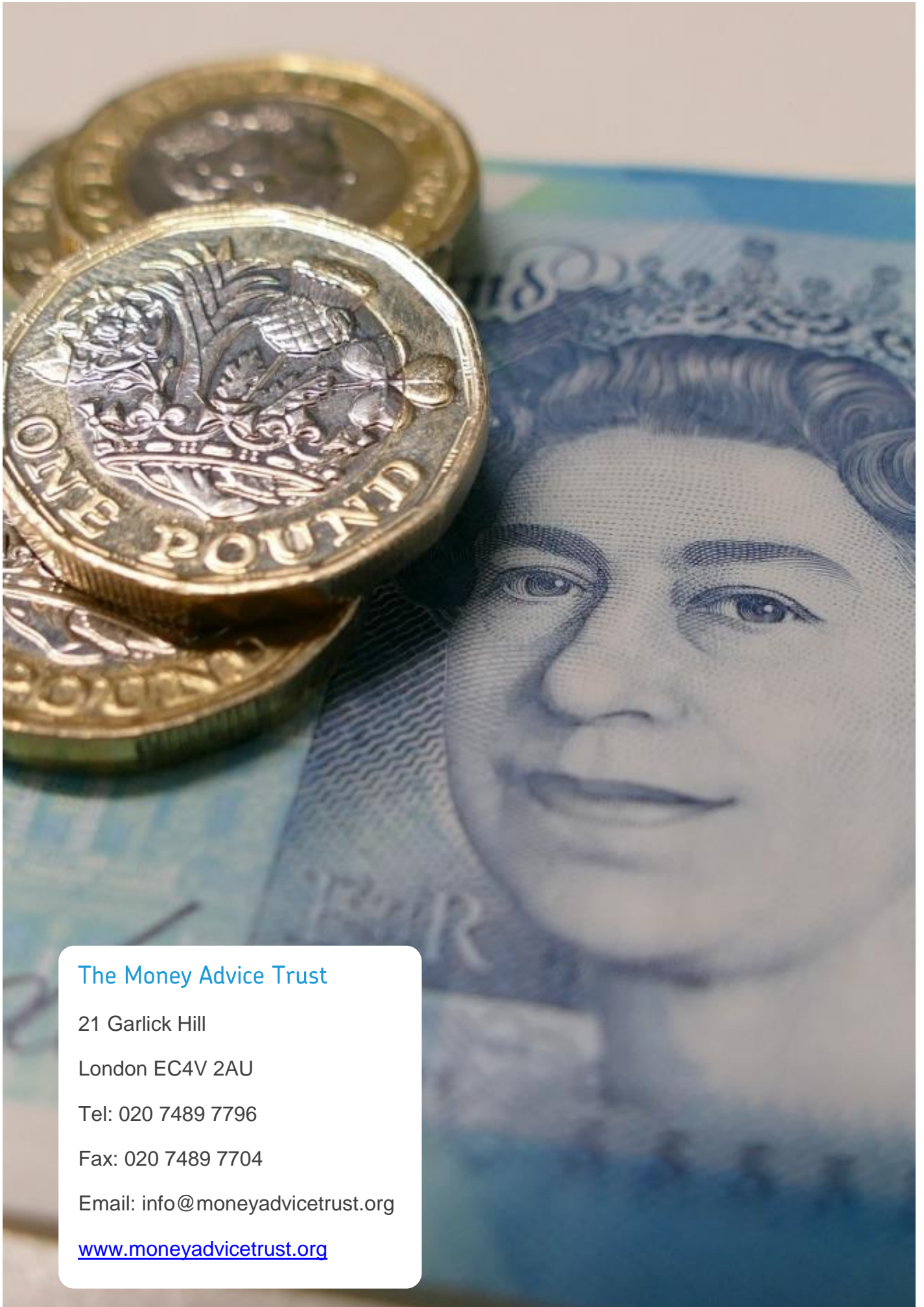
We do not agree that the scheme design should be different in England, Wales and Scotland. This creates an unacceptable level of complexity. This would be unduly complicated for households to understand and for advisers giving advice to households. Overall, suppliers and organisations that deliver industry initiatives would have to operate different schemes for each geographical area, even though they will have customers who live across the UK.

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