Department for
Business, Energy
& Industrial Strategy

# WARM HOME DISCOUNT SCHEME

## The Government Response to the Warm Home Discount Scheme 2018/19 Consultation

June 2018

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**Acknowledgements**
BEIS would like to thank all stakeholders who took the time to respond to the Warm Home Discount Scheme 2018/19 consultation.



Any enquiries regarding this publication should be sent to us at:
warmhomediscount@beis.gov.uk

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# General information

## Purpose of this document

This document sets out the UK Government's response to the consultation on the Warm Home Discount Scheme 2018/19.

The following supporting documents have been published alongside the UK Government's response:

- a final stage Impact Assessment

The implementation of the Warm Home Discount scheme for winter 2018/19 and until 2020/21 is subject to the agreement of the Scottish Ministers and parliamentary approval of the Warm Home Discount (Miscellaneous Amendments) Regulations 2018, which will be laid before Parliament shortly.

**Issued**: 15 June 2018

**Enquiries to:** warmhomediscount@beis.gov.uk

**Additional copies:**

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## Quality assurance

The consultation was carried out in accordance with the Government's Consultation Principles.

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

BEIS Consultation Co-ordinator, 1 Victoria Street, London SW1H 0ET
Email: enquiries@beis.gov.uk

# Executive Summary

### Overview of the scheme

1. The Warm Home Discount scheme was launched in April 2011 and has provided assistance with energy costs to over 2 million low income and vulnerable households in Great Britain each year. Since its launch, the scheme has provided over £2 billion of direct assistance to low income and fuel poor households.
2. The Government announced in the Spending Review in November 2015 that the Warm Home Discount scheme would be extended to 2020/21 at £320m per year, rising with inflation, to help households who are at risk of fuel poverty with their energy bills.
3. The Government published a consultation in March 2018 on the future of the Warm Home Discount scheme for 2018/19 and proposed to lay Regulations covering the scheme until 2020/21, with the ability to reform the eligibility for the scheme outside of Regulations, following future public consultation.
4. The key changes proposed in the consultation were to the Industry Initiatives element of the scheme, as well as some minor operational changes and minor changes to the mandatory criteria for the Broader Group. We proposed keeping the Core Group eligibility criteria unchanged for 2018/19, keeping the rebate at £140, and keeping the threshold for supplier participation at 250,000 domestic customer accounts.

### Responses to the consultation

5. The consultation ran from 30 March 2018 to 29 April 2018 with the consultation document published on the Government website.
6. We received 60 responses to the consultation. Among the responses, there were 36 responses from representatives of local authorities, third sector organisations or those with a direct interest in delivery and targeting of the scheme, including two responses from charities representing various parties. In addition, there were 13 responses from energy suppliers, 2 from industry bodies and 9 responses from individuals. The Department is grateful to everyone who took the time to respond to the consultation.
7. There was general support for the Government's proposals to: increase the level of spending permitted under Industry Initiatives from £30m to £40m; introduce a new activity under Industry Initiatives involving financial assistance on energy bills to households at particular risk of fuel poverty, or with a health condition; make minimal changes to eligibility for the coming winter, in advance of a potential future reform of eligibility.
8. There were mixed views on the proposed reduction to the level of debt write-off allowed as part of Industry Initiatives spending; and on the proposed end of the scheme year in March 2019. Respondents expressed concerns with keeping the obligation threshold for energy suppliers unchanged.

### Key changes following the consultation

9. In light of responses, Government will take forward the consultation proposals, with the exception of the following main changes:

    - The threshold for energy suppliers' participation in the scheme will remain at 250,000 domestic customer accounts this winter, but it will be reduced to 200,000 in 2019/20 and 150,000 domestic customer accounts in 2020/21. The threshold will be reduced in a phased way to allow smaller suppliers time to prepare while setting a clear pathway
    - A requirement on electricity suppliers to place a statement on their website and inform their former Core Group customers if they who are no longer participating in the scheme.

### Structure of the Government Response

10. Annex 1 in this document sets out the detailed feedback received on the consultation questions, and the Government's position on the key issues highlighted through the consultation process.

### Conclusion and next steps

11. The decisions set out in this Government response are subject to Parliamentary approval of the implementing Regulations. We intend to lay Regulations to cover scheme years 2018/19 to 2020/21 which, subject to Parliamentary process, should come into force by August 2018, when the new scheme would begin. Ofgem will also publish guidance consistent with the details of the new policy and the amended Regulations.

# Annex 1: Consultation Questions and Government Response

## 1. Industry Initiatives

### Consultation Question 1

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

**Summary of responses**

1. Of those who expressed a view, there was unanimous support for this proposal. A theme across supporting comments was that Industry Initiatives provide many benefits, and the increase would help to maximise these. The benefits noted by respondents included: flexibility to support customers in need; support for activities that provided a lasting benefit for customers; the scope to deliver holistic solutions; and enabling suppliers to work with partners who have a deep understanding of vulnerable and low income households.

2. Although there was overwhelming support, many made qualifying comments. Some suppliers said that the shortened scheme year presented a challenge to delivering in time, and that a streamlined approvals process for existing projects was needed. Others stressed a need to keep learning from initiatives, sharing best practice. Some mentioned the need for clarity and transparency regarding how initiatives are commissioned, prioritised and delivered.

**Government response**

3. Government has taken note that respondents welcome the proposal to increase the spending cap on Industry Initiatives spending from £30m to £40m per scheme year. It will therefore implement this change. Government acknowledges some respondents expressed concerns around the ability to deliver projects within the shortened timescales for scheme year 2018/19. This issue is covered in response to question 17.

4. With regard to the comments on sharing more information on industry initiatives and good practice, we will keep these in mind as the scheme is rolled out.

## Consultation Question 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?

### Summary of responses

5. Among those who expressed a view, there was overwhelming support for this proposal (94%). The main argument in favour was that it would increase significantly the ability to target support on vulnerable and low income households, largely because of local authorities' experience and expertise in understanding the needs of local communities. Other comments included that it represented a "pragmatic" approach, and that it was sensible to promote join-up with ECO.
6. A small number of concerns were raised (although these did not prevent support for the proposals). Some noted that, under ECO's flexible eligibility mechanism, local authorities could delegate lead-generation activities, and some parties involved in this were more focused on keeping delivery costs down than on optimal targeting. A small number of other respondents suggested, however, that other parties should become involved, such as relevant charities. One respondent was concerned that for the recipient, obtaining support through this method was like a "postcode lottery", as not all local authorities participated in the ECO flexible eligibility mechanism. There were also some comments on the Statements of Intent that local authorities produce for ECO, that these were largely unmonitored, and that these should be reviewed to ensure appropriate targeting.

### Government response

7. In light of responses, Government considers that households identified under an ECO flexible eligibility declaration ("LA flex declaration") should automatically qualify as being "wholly or mainly in fuel poverty" and therefore should be eligible for support under Industry Initiatives. This will only apply to households identified under the LA flex declaration as being in or at risk of fuel poverty, or low income and vulnerable to cold, and not those other households who qualify for ECO under the "in-fill" mechanism (as these households are not in fuel poverty). LA flex declarations issued during any ECO scheme year, including the current scheme (1 April 2017- 30 September 2018), should be valid for this purpose, as long as the LA has a valid Statement of Intent publicly available.
8. This approach will strengthen the links with ECO, and provide assistance, in particular, to those who have been identified under an LA flex declaration but have missed out on energy efficiency support under ECO.
9. Government confirms that under ECO flexible eligibility, local authorities can work with other organisations, such as charities and the health sector, to identify households in need. Government reiterates that support for energy efficiency measures cannot be counted under both schemes. Other comments in relation to this question are more relevant to the ECO consultation.

## Consultation Question 3

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

### Summary of responses

10. Responses to this question were mixed. Among those who expressed a view, there was a small majority in favour (54%) of reducing the cap to £10 million in 2018/19.
11. Of those in favour, several noted that there were benefits to writing off debt but that it did not in itself provide a sustainable solution and it was more important to address the causes of debt. A debt charity noted that while debt write-off can provide some relief to customers, for households in debt it was more important for enforcement to stop and for threats of being placed on a pre-payment meter or disconnection to cease.
12. Others felt that the funds could be better-used, though one noted that the mechanism helped to engage hard-to-reach customers.
13. Several respondents expressed concern that some suppliers used the mechanism to write off debts that they would have written-off anyway, with one arguing for complete removal of the facility.
14. Many of those against the reduction were energy suppliers, although two large suppliers did support the reduction. One argument against was that there was a lack of time, given the delay in consulting, for suppliers to make other arrangements for industry initiatives. Others noted the positive and long-lasting effects of debt write-off in keeping households debt free. Some however thought the cap would cover debt assistance, as well as debt write-off. One charity disagreed with the cap level, arguing that the cap should be lower.
15. A small number recognised the case for reduction but said this should be delayed until all suppliers improve their debt intervention procedures.

### Government Response

16. While Government recognises debt write-off can provide some relief to households, Government believes that the Industry Initiatives part of the scheme should be focused on supporting households to tackle fuel poverty for the long-term. To encourage more of these activities, Government has decided to continue to reduce the cap on debt-write off spending as per the consultation proposal. As such, the cap on debt-write off will be set to a maximum of 25% of suppliers' Industry Initiative allowance (equivalent to £10m overall) in 2018/19.
17. As per current rules, the cap will only be applied to debt write-off and will not apply to the money suppliers spend on other debt assistance. Indeed, Government strongly encourages any debt write-off activity to be carried out alongside other forms of support that can help households tackle the reasons they are unable to pay in the first place, such as support with financial management, energy efficiency and other measures to

keep down energy bills, measures which have a more long lasting impact on households. Energy advice should be provided alongside any Industry Initiative activity.

18. Government notes the concerns about the time allowed to set up new industry initiatives or reduce the amounts spent through existing projects, given the delay in the start of the scheme. Government has concluded that, as this is a relatively small financial reduction, and Government had expressed its intention to continue to reduce the cap in the previous Warm Home Discount consultation, suppliers would have had sufficient time to consider and develop alternative initiatives for this year.

## Consultation Question 4

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

### Summary of responses

19. A majority of respondents (69%) were against continuing a reduction in the cap by 5% each year: from 25% of suppliers' Industry Initiative allowance in 2018/19 (equivalent to £10m overall), to 20% in 2019/20 (£8m overall) and 15% in 2020/21 (£6m overall).

20. Many respondents' positions reflected their views in response to Question 3, but a small number of those who had supported a reduction from £12m to £10m for 2018/19 were against establishing continuing reductions, or expressed caution.

21. The arguments for and against were largely similar to those for Question 3. A small number of additional points were made against the reductions: that the proposed level of reduction seemed arbitrary; that the mechanism would become unsustainable at lower levels; and suggesting a review of the position after 2018/19. One charity disagreed on the basis that the cap should reduce by 10% each year.

### Government response

22. As set out in response to Question 3, Government believes that Industry Initiatives should be focused on activities enabling customers to tackle fuel poverty for the long-term. The focus on spending should therefore be focused on activities that help households to either prevent debt accumulating in the first place, or escalating.

23. Suppliers are already required by their licence conditions to put in place affordable repayment plans for their customers, in particular for their vulnerable customers. Government believes that while debt write-off can help reduce fuel poverty, it should be limited under a Government scheme given it can be commercially attractive, and part of suppliers' responsibilities under their licence conditions.

24. In light of this, the Government has decided to continue to gradually reduce the level of the cap in future years to allow suppliers time to adjust and set up other projects. The cap therefore will be set at 20% of suppliers' Industry Initiatives spend in 2019/20 (a total of £8m) and 15% (a total of £6m) in 2020/21. It is important to note that debt assistance

will not be covered by the cap, as per current rules. The continued reduction in the cap was anticipated in a previous Government consultation.

## Consultation Question 5-7

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?

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.

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

### Summary of responses

25. The vast majority (96%) agreed with the proposal to allow the provision of financial assistance with energy bills under Industry Initiatives, but there were a number of additional suggestions and qualifications. Reasons for supporting the proposal focused on the benefits for those in fuel poverty who are ineligible for WHD support. One noted that the mechanism could work well with the flexible eligibility element of the Energy Company Obligation.

26. Two main arguments were raised against the proposal, these being that it could lead to subsidising further debt write-offs but via a different route, and that the measure would encourage further rebates, thus diluting the targeting of the Broader Group. Others flagged up these risks, but still supported the proposal. One concern voiced by a small minority of respondents was that, given the lateness of the consultation, there would be little time available for suppliers to prepare and deliver the support.

27. Further suggestions for this element of the scheme included: supporting emergency fuel banks; providing advice; including debt advice (noting that this could be more important given the proposals to reduce the cap for debt write-off); providing assistance only as part of a broader package of support; including as eligible those in fuel poverty in the Broader Group who miss out because of the funding limits being reached; providing support in emergency situations only; and providing just smaller amounts (around £20-£40).

28. Several sought more guidance on the use and criteria for the mechanism. There was a mixture of views on how tight the criteria should be and how they should be assessed.

29. The majority of those who responded to question 6, (64%), agreed that financial assistance should be capped at £5m. Those who agreed, argued that a cap would serve

to encourage other activities. Others argued it was sensible to introduce a cap, and that it should be monitored before increases.

30. Some of those who in response to the previous question raised risks, such as the use of financial assistance for debt write-off, or as an extension of Broader Group rebates but with worse targeting, thought the cap would limit the scope of these risks.

31. Those who disagreed (36%) with the level of the cap, thought there should be no cap, or there should be some flexibility on the size of the cap, at the discretion of suppliers. A fuel poverty charity argued the cap should be higher than £5m, given the large amount of households who self-disconnect because they can't afford to top up their pre-payment meters.

32. In response to question 7, a majority of respondents (67%) agreed that the level of financial assistance given through Industry Initiatives should be limited to the value of the WHD rebate at £140. Those who agreed, noted it was equitable to provide the same amounts of financial assistance as the WHD rebate, others noted that the amount would be too much for some households, and not enough for others, however this was a sensible middle ground.

33. Among those who disagreed with the level of the rebate (33%), some reiterated arguments expressed in response to question 6, others wanted the ability to pay less to deal with temporary crises. Some, especially suppliers, argued the value of the assistance should be flexible depending on the circumstances. Some said this should be an exception process closely monitored by Ofgem.

### Government response

34. Government takes note of the responses. It has therefore decided to introduce a new activity under Industry Initiatives which will cover the provision of financial assistance with energy bills to households that are particularly at risk of fuel poverty. This measure will offer support to such households, in particular to those ineligible for rebates. For example, this could be providing vouchers for customers in fuel poverty who are struggling to top up their pre-payment meters during winter months, or a rebate for customers with a long term health issue which increases their heating needs and makes them more susceptible to a cold home.

35. Some respondents raised concerns this provision may result in diluting the targeting of rebates, and that rebates will be provided to an ill-defined group of residents. Government will require that financial assistance provided under Industry Initiatives is only given to customers that fall into one of the following vulnerable groups, at risk of fuel poverty: i) those living off the gas grid; ii) those with long term health problems and/ or a disability; iii) communities where residents are wholly or mainly in fuel poverty; iv) customers on a pre-payment meter. Ofgem will require evidence to ensure these groups are accurately targeted and that particular focus is given to groups who are particularly at risk, and in emergency situations, such as households in one of the risk groups above who don't have sufficient credit, or where a heating system is broken and households are forced to use more expensive temporary heating. The targeting of assistance can work well with ECO flexible eligibility declarations (see response to Question 2).

36. Customers will only be eligible for financial assistance if they are not eligible for a Core Group rebate, nor in receipt of a Broader Group rebate. We take note of concerns around

the verification of this requirement, in particular if a customer switches supplier, or if rebates and financial assistance are given at different times of the year. In order to encourage this new activity, Government will keep verification as simple as possible. In future, if data matching is introduced for all customers eligible for a WHD rebate, we believe verification will be made easier. In the scheme year 18/19, customers should be required to self-certificate that they have not, or will not receive, a separate rebate during the scheme year. We would also encourage suppliers to consider a centrally managed fund, similar to the Park Homes Scheme, to manage applications.

37. Some respondents raised concerns that in some cases, there can be a blurred distinction between financial assistance and debt write-off, in particular for pre-payment customers with payment plans, where energy debt is recovered from every pre-payment top-up, or for customers who repay their energy bills, including debt, out of their benefits payments. Government confirms that suppliers will not be able to count debt write-off spending under financial assistance, though financial assistance can be given in combination with other Industry initiatives, such as debt write-off. In the cases where both types of assistance are provided, 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.

38. In light of responses to question 6, Government has decided to introduce a cap for the amount of spending allowed for financial assistance with energy bills, which will be set at £5m overall, or 12.5% of suppliers' allowance under Industry Initiatives.

39. Government is clear that the Industry Initiatives part of the scheme should be focused on the provision of sustainable and long-term support to households most in need. Therefore, the cap will remain in place for the duration of the WHD regulations, until 2020/21.

40. The cap on financial assistance with energy bills, will have a double role, to encourage suppliers to use this as emergency help, and help more customers with small amounts of money where most needed. A cap will also ensure this new activity does not take over Industry Initiatives spending, and that suppliers continue to think about a whole range of activities affecting the long-term wellbeing of households. As such, Government encourages suppliers not to provide this assistance in isolation, but alongside wider industry initiatives.

41. In light of consultation responses to question 7, Government has decided to limit the amount of financial assistance to up to £140 per household per scheme year. This is an upper limit, but suppliers will be able to provide smaller amounts, including multiple times to the same household, up to the limit.

42. We take note of responses requesting flexibility with the amount provided above the limit, or an exception process monitored by Ofgem. Many respondents suggested that emergency support would typically be significantly smaller than £140, for example, vouchers provided by pre-payment top-up schemes such as Fuel Banks are smaller than this, in the vast majority of cases. Therefore, Government considers the limit to the amount of financial assistance allowed per household is right. This cap, will also avoid suppliers spending significant amounts on a limited number of households, as it has been the case in the past with debt write-off spending. Government confirms these households will be able to receive other support under Industry Initiatives, including debt write-off, and will be captured under the safeguard tariff, if eligible.

# 2. Multi-year Regulations

## Consultation Question 8

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

### Summary of responses

43. The overwhelming majority of those who responded to this question agreed with the proposal to issue regulations covering the scheme until 2020/21 (92%). Many respondents agreed subject to there being review clauses enabling the scheme to be reviewed, and on the condition that this would not inhibit reform of the scheme eligibility and data matching in future. Many noted this would provide a greater opportunity to develop more innovative and complex Industry Initiatives over the three year period. Several asked for clarity around the intentions of the Scottish Government to develop a separate scheme within the timeframe.
44. A small number of respondents disagreed with the proposal (8%). One noted the Regulations should be kept under annual review; a supplier thought the regulations should be reviewed in order to lower the supplier participation threshold in 19/20.

### Government response

45. In light of responses, Government has decided it will issue Regulations covering the scheme until 2020/21. The Regulations list the conditions for which amendments can be made in future. A reform of the Core group eligibility will be possible outside of Regulations, and we would expect to consult on any changes to eligibility for later scheme years.
46. The regulations are GB-wide, and as such the decisions set out in this Government Response will apply to England, Wales and Scotland, subject to the agreement of Scottish Ministers and Parliamentary approval of the regulations. It is a matter for Scottish Ministers to decide whether to use their powers to develop a separate scheme for Scotland.

# 3. The Core Group

## Consultation Question 9&10

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?

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

### Summary of responses

47. Among those who expressed a view, the overwhelming majority (95%) supported the view that the Core Group eligibility should remain unchanged for scheme year 2018/19. However, the views were strongly qualified. Numerous respondents said they only supported the proposal because there was insufficient time to reform eligibility to improve fuel poverty targeting and expand data matching in the time available this year.

48. The overwhelming majority of respondents thought Government should reform Core Group eligibility in future (90%). Many saw this as an opportunity to maximise the benefits from data sharing powers and to improve significantly targeting of fuel poor households and expand data matching to a broader set of customers. Numerous suggestions were made: several suggested expanding the Core Group to include low income, working age households, including those with children, householders with disabilities and long-term illnesses; some said that in making changes, support should not be removed from those who are currently eligible and have come to rely upon it.

49. Some respondents said that for future reforms sufficient time needed to be allowed for consultation on changes, and then subsequently for implementation.

### Government response

12. Government will maintain the criteria and processes for the Core Group unchanged for the scheme year 18/19. Therefore, the Core Group will continue to cover low income pensioners in receipt of Pension Credit Guarantee Credit, with or without Savings Credit.

13. Later this year, we intend to consult on future measures to make delivery more efficient and improve the targeting of support towards fuel poor households in greatest need. We will consider the potential role for new data matching powers under Part 5 of the Digital Economy Act which, subject to parliamentary processes, are expected to come into force before summer recess. This would enable us to expand the provision of automatic rebates, through data matching, to working-age households.

# 4. The Broader Group

## Consultation Question 11-13

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 of a limited capability for work element, or a disabled child element, or parental responsibility for a child under the age of 5)?

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?

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?

### Summary of responses

50. Those who answered questions 11 to 13 overwhelmingly agreed with the proposals. Several suppliers asked for confirmation that receipt of these benefits could be validated by DWP, rather than through third party verifications services, and asked for Ofgem to set out clearly the evidence requirements.

51. A majority of respondents (87%), agreed that the Broader Group standard criteria should be amended to include UC recipients in work or self-employed under the proposed earnings threshold. Some noted that several suppliers already cover these criteria. A few thought the threshold should be higher for London, given higher costs. Those who disagreed, expressed concern that expanding eligibility criteria would result in people who previously received support missing out. One charity suggested this issue would be resolved by increasing the spending envelope for the scheme. One supplier noted the earnings threshold requirement would be easier to operate and clearer to the customer if it was starting from the beginning of the scheme year rather than the last 12 months.

52. Similarly to Question 11, a large majority (83%) was in favour of including ESA recipients who are in a Work-Related Activity Group, and UC recipients in the Limited Capability for Work (LCW) in the mandatory criteria for the Broader Group. The arguments for and against were similar to those expressed in response to question 11.

53. The majority of respondents to question 12 (74%), agreed the Broader Group covered the right benefits for 2018/19. However, many thought a reform was necessary in future either to expand data matching to these customers, or to reach more customers in fuel poverty, or with a disability. Those who disagreed (26%), argued data matching should

be introduced straight away, or suggested eligibility should not be based on receipt of a benefit, should include older people in ill-health, or be consistent with ECO3.

### Government response

14. In light of responses, Government will introduce the changes to the Broader Group which were proposed in the consultation, as follows:

- UC recipients in work or self-employed with monthly net earnings not exceeding £1,349 will be eligible - if they are in the limited capability for work group or limited capability for work and work-related activity group, or in receipt of a disabled child element, or have parental responsibility for a child under the age of 5 who lives with them;
- Income based ESA recipients who are in a Work-Related Activity Group will be eligible - if they have responsibility for a child under 5 who lives with them or are in receipt of a qualifying component (i.e. enhanced disability premium; a severe disability premium; a pensioner premium; or Child Tax Credit that includes a disability or severe disability element).

54. For UC recipients, the net monthly earnings should be at or below £1,349 in at least one assessment period. The assessment period can be any assessment period during the scheme year or starting up to 6 months before the beginning of the scheme year. This will provide a fixed timeframe.

55. Government takes note of concerns around benefits verification. DWP confirmed they can verify criteria for ESA customers, and are exploring their ability to provide automatic verification for UC Full Service customers.

# 5. Level of the rebate

## Consultation Question 14

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

### Summary of responses

56. The majority of respondents to this question, agreed the rebate would be unchanged at £140 (61%). Some thought the level should be reviewed as part of the wider eligibility reform. Others thought the level of the rebate should be based on the number of people it wanted to support and its assessment of the energy market. Some thought Government should explore providing different levels of support according to the needs of the household.

57. Those who disagreed (39%), thought the rebate should be increased to reflect inflation in recent years, or index-linked to reflect energy price increases. One supplier suggested it should be increased to off-set the increase in the size of the Broader Group obligation.

### Government response

58. Government has decided to maintain the value of the rebate at £140. Maintaining the value of the rebate unchanged, with an increased spending target to reflect inflation, will enable support to reach a larger number of households.

59. In addition to the WHD rebate, eligible households on pre-payment meters or receiving the WHD will receive additional protection through the safeguard tariff this winter. In February, Government introduced a Bill into Parliament which will provide protection to all customers on Standard Variable Tariffs (SVTs) and other default tariffs (tariffs that customers have not actively chosen). Subject to parliamentary process, this will come into force before summer recess and will task Ofgem with introducing a price cap on SVTs and default tariffs as soon as practicable. We expect the price cap Bill will guarantee protection for 11 million households currently on the highest energy tariffs – in addition to 5 million vulnerable households already protected by Ofgem's safeguard cap.

# 6. Participation threshold

## Consultation Question 15

Do you agree to keep the energy supplier participation threshold to 250,000 domestic customer accounts for the scheme year 2018/19?

### Summary of responses

60. Of those who responded to this question, 65% were in favour of lowering the threshold for energy supplier participation into the scheme, and 35% in favour of keeping the threshold as it is. Of those who agreed to keep the threshold, several agreed to retain the current threshold for 18/19, as there would be insufficient time for implementing the change, but supported a change of the threshold as part of a broader scheme reform.

61. Those who agreed with keeping the threshold at 250,000 domestic customer accounts argued that reducing the threshold would damage effective competition, affecting market entry and risk suppressing innovation in business models that new entrants bring. They argued that the policy imposes disproportionally higher costs on smaller suppliers, and that smaller suppliers were facing challenging years ahead with smart meter roll-out, faster switching and potential half-hourly settlement. One respondent noted that smaller suppliers had higher risks of non-compliance; a respondent suggested that non-

obligated suppliers should be able to opt-into the scheme to deliver rebates to the Broader Group, as well as the Core Group.

62. Those who argued for a lower threshold, argued that this would remove barriers to switching, and it would make the policy more equitable, as customers who are not contributing to the cost of the policy are less likely to be low income and vulnerable. They argued lowering the threshold would improve competition, as the policy exemption enables small suppliers to be more competitive and offer reduced tariffs. Some argued this squeezes mid-tier suppliers in particular, and affects growth patterns, as suppliers may prefer to stay under the threshold to avoid the cost of the obligation. Others noted that the cost of administering WHD payments to the Core Group activities are relatively small, and that smaller suppliers should be obligated to deliver the Core Group.

63. Suggested variants to an obligation to participate in the scheme included: a mechanism for smaller suppliers to opt-out and pay other suppliers to deliver their share of the scheme; a central fund for small suppliers to contribute to Industry Initiatives, including the provision of rebates; and a levelisation mechanism for non-core obligations to ensure equitable costs across all consumers.

64. Most of those who argued for a lower threshold did not specify the level; some suggested it should include all suppliers; whilst others thought it should be set at various levels, 150,000, 100,000 or 50,000, with a majority supporting a 50,000 domestic customer accounts threshold. One respondent suggested a stepped approach.

65. Others noted that, if Government were to keep the same threshold, it should be clearer which suppliers are not obligated, and Government should make a full assessment of the competition impacts of the threshold.

### Government response

66. In light of responses, Government has decided to retain the threshold at 250,000 domestic customer accounts for 2018/19, but to lower it to 200,000 in 2019/20 and 150,000 in 2020/21. Based on current domestic customer numbers, that would change the proportion of the market covered by obligated suppliers from 94% currently to 96% and 97% respectively. This reduction will be reviewed after 20/21, if the WHD policy was to continue, with a view to reducing the threshold further, potentially to zero or a small minimum, if the evidence on the impacts of reducing the threshold on the energy markets supported this approach.

67. At a time when Government is introducing measures to improve competitiveness in the energy market, a gradual reduction will give a clear long-term signal whilst allowing smaller suppliers time to prepare for delivery. Any reduction has to balance the benefits of increased participation in the scheme, with the aim of improving competitiveness in the markets, including through the existence of smaller suppliers. A gradual reduction will enable suppliers to adjust their business models to deliver the scheme, helping to minimise the risks of non-compliance.

68. Given the customer mix of smaller suppliers and the higher delivery costs for the Broader Group, we will only be reducing the threshold for the Core Group. If the scheme is reformed from 2019/20 to be fully based on automatic entitlement, this would cover the provision of all rebates under the scheme.

69. As the spending envelope for the scheme is fixed, lowering the threshold will not result in more customers benefitting from a rebate overall, but more suppliers will be obliged to make it available and the costs will be spread across more customers. A reduction will reduce barriers to switching, as smart meters roll-out and the benefits of switching help consumers.

70. Meanwhile, below the obligated threshold, suppliers will continue to be able to volunteer for the Core Group.

# 7. Operational changes

## Consultation Question 16

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

### Summary of responses

71. Most respondents (94%) agreed that suppliers should take some action when leaving the scheme, either because they drop below the obligation threshold, or because they decide to opt-out of participation as a voluntary supplier. Many thought that suppliers should notify their customers, so customers could switch to another supplier if they wished, before the qualifying date for that scheme year. Others noted that this was a relatively small problem, and that a change to the supplier threshold (Question 15), would help customers switching more easily.

72. Many noted that suppliers who are leaving the scheme should honour their payment to Core Group customers who did not receive a payment during the obligation period because energy suppliers were not notified of their entitlement. Respondents suggested these suppliers should continue to be obligated for a period of time after the end of the scheme year, or act as a voluntary supplier.

### Government response

73. Government takes note that most respondents suggested that suppliers leaving the scheme should provide rebates to Core Group customers who did not receive a payment during the obligation period because energy suppliers were not notified of their entitlement. As the scheme year 17/18 has ended, such a requirement could be considered retrospective. As Government will reduce the supplier threshold from 19/20, some suppliers who could have left the scheme will continue to be obligated. In addition, we do not consider that smaller suppliers should continue to carry an obligation to pay rebates under the scheme, even for a limited amount of time, if they have dropped below the threshold. These suppliers can, however, provide the rebate to the small number of

customers affected on a voluntary basis, or decide to continue to provide the Warm Home Discount on a voluntary basis.

74. Government believes that customers should be made aware if their supplier leaves the scheme, so that the customer can consider their position and switch supplier if they choose to. We will therefore introduce a requirement for suppliers to notify their customers, with a direct written notice, if they were Core Group customers the previous year, and an online notice for all its customers, that they will stop participating in the scheme.

75. Suppliers leaving the scheme will be required to notify their customers within one month of the Regulations coming into force. Government encourages these suppliers to notify their customers at the earliest opportunity. From 19/20, suppliers will need to notify their customers within one month of the start of each scheme year.

## Consultation Question 17

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

### Summary of responses

76. Responses to question seventeen were mixed. A majority of respondents (58%) who answered this question directly agreed that the 2018/19 scheme should end in March 2019. Those who agreed felt strongly that customers should receive the rebate during the winter months, when the rebate is most valuable. Many said that rebates should be received in January at the latest.

77. Some suppliers who agreed with the proposed end date noted that, given the limited scope of proposed changes to the Broader Group, suppliers would be able to prepare and open their Broader Group schemes to applications early, ahead of the start of the Regulations coming into force. A few respondents, including a charity, asked for flexibility for Industry Initiatives end dates, to provide more time to deliver the activities and increase their effectiveness.

78. Those who disagreed (39%) with this date, suggested alternative months, with May 2019 being the most popular for the extension, followed by April. The main concerns were around the increased spending target for WHD in 18/19 and the shrinking numbers of Core Group recipients, which meant that suppliers would have to find more Broader Group applicants, complete the verification process and pay rebates within a reduced timeframe. Many were also concerned that a shorter timeframe may affect the ability of suppliers to set up and deliver new and innovative Industry Initiatives.

### Government response

79. In light of responses, and in line with the purpose of the scheme to support households during the winter months when they are most needed, Government has decided to set

the end of the scheme year to March 2018. This end date will apply for the scheme year until 2020/21.

80. We take note of concerns about the reduced timing to deliver the scheme in 18/19, given the delay in the start of the scheme year, in particular with the delivery of rebates to the Broader Group and Industry Initiatives. As changes to the Broader Group are minor, suppliers will be able to start preparations on their Broader Group scheme before the start of the scheme. Ofgem will review early notifications from suppliers, which will however need to be subject to formal approval before being launched.

81. In addition, as an alternative to providing larger numbers of Broader Group rebates, suppliers will be able to choose to spend more on Industry Initiatives, given the increased spending cap for Industry Initiatives. This may be particularly attractive to new entrants who may find it harder to identify customers in the Broader Group. All suppliers will continue to have until mid-December to notify Ofgem if they wish to transfer funding from Broader Group to Industry Initiatives (see answer to question x).

82. We take note of concerns about the reduced timings for Industry Initiatives. However, as Regulations will be in place until 20/21, suppliers will be able to set up multi-year schemes, providing continuity. This would allow some flexibility in spending across years, with reduced reporting in intermediate years. In addition, as set out in response to Question 19, Government will allow suppliers to count activities carried out from 1 April 2018, before the Regulations have come into force, towards their Industry Initiatives spending, providing the spending is subsequently determined by Ofgem to meet the Scheme's requirements. Where initiatives have been approved in previous years, have been delivered well and have not changed, we would expect them to be eligible for 2018/19, so suppliers can focus on developing new schemes, or place additional funding in existing schemes. Ofgem will start to review notification of projects in advance of the regulations being in place. Ofgem will also discuss with suppliers the opportunity for an event for suppliers to meet potential Industry Initiatives partners.

83. We note some respondents' concerns around the ability to deliver rebates to pre-payment customers on time. As these households are often most in need, we encourage suppliers to deliver rebates to PPM customers as early as possible, and no later than the end of March. As with previous years, suppliers will be required to make additional efforts to ensure these rebates are provided, otherwise these undelivered rebates will be carried over into the following scheme year's obligation.

## Consultation Question 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?

### Summary of responses

84. Most respondents agreed (60%) that suppliers should be allowed to carry forward up to 5% of their overspending on the non-core obligation in scheme year 7, and that their non-core obligation should be reduced by a corresponding amount in the following year. Some respondents agreed with the approach, but suggested the amount of overspending permitted should be increased to 10% (one supplier suggested 15%) to provide additional operational flexibility, as achieving 5% had proven challenging when trying to process increasing numbers of non-core applications on a first-come first-served basis.

85. Those respondents who opposed the proposal (40%) argued that suppliers should not be able to spend more on non-core WHD one year and less the next, as this would have a negative impact on customers applying for the discount in the following year as it would reduce the support available.

### Government response

86. In light of responses, Government has decided to continue to allow 5% of supplier overspending on the non-core obligation in scheme year 17/18, to be deducted from their non-core budget in scheme year 18/19. The same provision will apply until 2020/21.

87. Government recognises it is not always possible for suppliers to be precise with their non-core spending, and this could lead to customer applications being rejected to mitigate the risk of overspending. This provision will provide some flexibility for suppliers, whilst not disproportionately compromising the amount of spending available for the scheme in the following year.

## Consultation Question 19

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

### Summary of responses

88. The majority of respondents to this question (56%) welcomed the opportunity to start Industry Initiatives before the regulations are in place. These respondents thought starting activities early was essential for schemes' continuity and success, providing there were no fundamental changes in the new regulations. Some respondents suggested that the process of approval through Ofgem could be quicker and simplified, especially when applying to continue an existing initiative.

89. Respondents who foresaw risks and issues associated with starting Industry Initiative activities before the regulations are laid (44%), shared concerns regarding activities for the scheme not meeting Ofgem's requirements and not being subsequently approved. There were also concerns about Ofgem's approval processing time.

### Government response

90. Government will include provision in the new regulations allowing suppliers to count, from 1 April 2018, their Industry Initiatives spending towards their spending obligations, providing the spending is subsequently determined by Ofgem to meet the Scheme's requirements.

91. Government takes note of responses indicating that Ofgem's approval process could be quicker and simpler, especially in relation to existing initiatives. Established initiatives should be able to continue, providing suppliers pay attention to any findings from audit and compliance activity undertaken as part of scheme year 2017/18. In addition, to support continuity or the development of new projects, Ofgem will offer a review of notifications on projects in advance of the regulations being in place.

## Consultation Question 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?

### Summary of responses

92. Respondents were in broad agreement with this proposal (79%) to transfer some of their non-core obligation to Industry Initiatives three and a half months before the end of the scheme year. Those that did not agree (21%) felt this provision was unnecessarily limiting, and that given the shorter timescales for scheme year 2018/19, this would not leave sufficient time especially for newly obligated suppliers to determine whether any of their non-core obligation would need to be transferred to Industry Initiatives.

### Government response

93. In light of responses, Government will go ahead with the provision, which will enable energy suppliers to notify by 15 December (three and a half months before the end of the scheme year) whether they intend to transfer any of their Broader Group obligation into Industry Initiatives. In practice, this will continue a requirement which is already in place. Any suppliers wanting to use this option, would need to satisfy Ofgem that they have made every effort to fulfil their non-core obligation before any request is considered.

## Consultation Question 21

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

### Summary of responses

94. Most respondents (83%) agreed that any undelivered rebates in scheme year 2017/18 should be added to a supplier's non-core obligation in 2018/19, and highlighted that suppliers would require some clarity on this going forward, should Government carry out its intention to reform the scheme in future years. The issue of suppliers that drop below the threshold and are no longer obligated was raised here for consideration.

95. Respondents who disagreed shared concerns regarding people with pre-payment meters and the time spent trying to deliver rebates to this group. Some thought the cost of cancelling and re-issuing vouchers would be significant.

### Government response

96. In light of responses, Government will provide for undelivered rebates in scheme year 2017/18 to be added to a supplier's non-core obligation in 2018/19. This provision will apply in scheme year 18/19 and scheme year 19/20 as well. As such, suppliers will be required to report to Ofgem by 31 August 2019 and 31 August 2020 the number of undelivered rebates, and Ofgem will add these to their non-core obligation into the following scheme year.

97. Suppliers who leave the scheme if they fall under the participation threshold for the following year, would still need to report undelivered rebates to Ofgem. The value of the undelivered rebates will not count towards the supplier's contribution to the scheme obligation for the purposes of the end of year determination.

98. Some respondents asked whether this provision would continue if the scheme's eligibility was reformed in future. Government confirms that in this case the spending in relation to undelivered rebates will continue to be added to non-core obligations into the following year. This would cover Industry Initiatives, if the Broader Group was incorporated into the Core Group.

## Consultation Question 22

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

### Summary of responses

99. 92% of respondents agreed with the proposal for Ofgem to respond to notifications in 20 working days and considered this to be a minor amendment, which would bring the process in line with standard Ofgem administrative timeframes. One respondent who disagreed, preferred a shorter timeframe of 15 working days, given the shorter timescales for the coming scheme year.

### Government response

100. Government has taken note of responses and will therefore amend the requirement for Ofgem to respond to notifications from 28 calendar days to 20 working days. This is a minor amendment, as 20 working days are usually equivalent to 28 calendar days.

## Consultation Question 23

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

### Summary of responses

101. Many respondents had additional comments. These included:

- To consider expanding eligibility for the scheme to include those that are not pensioners with a disability and on income related benefits, people of working-age, which fall into the lowest income deciles.
- To consider linking the WHD to winter fuel allowances and cold weather payments so that the application/ qualification process and criteria become consistent across all of the policies designed to help with the costs of winter heating and fuel poverty.
- To improve the alignment of the WHD against the Fuel Poverty strategy, making good use of all data available and reform future schemes to enable better targeting of support to households in risk of or living in fuel poverty.
- To make available information about what industry initiatives schemes are running, their expenditure and what they deliver.

### Government response

102. Government wishes to thank respondents who submitted additional comments. These comments will be taken into consideration as part of the future development of the scheme.

# Annex 2: List of respondents

1. Age Sector Platform
2. Age UK
3. AgilityEco
4. ALEO London
5. ALEO West Midlands
6. Association of Local Energy Officers (ALEO)
7. Auriga Services Ltd
8. Barnsley Metropolitan Borough Council
9. Bedwyr Gwilym MP
10. Bristol Energy
11. BULB
12. Centre for Sustainable Energy
13. Centrica
14. Charis Grants
15. Christians Against Fuel poverty
16. Citizens Advice
17. Clarion Housing Group
18. Committee on Fuel Poverty
19. Co-op Energy
20. E.ON UK
21. EDF
22. Energy Action Scotland
23. Energy UK
24. ESB Energy
25. Feeding Britain
26. First Utility Limited
27. Fuel Poverty Action and Disabled People Against Cuts (joint response)
28. Good Energy
29. Gravesham Borough Council
30. Greater London Authority
31. Middlesbrough Affordable Warmth Partnership
32. Mineral Wool Insulation Manufacturers Association
33. NEA
34. Nottingham City Council
35. Norwich City Council
36. npower
37. Ofgem
38. OVO Energy
39. Oxford City Council

40. Scope
41. Scottish power
42. Shetland Islands Council
43. SSE
44. StepChange Debt Charity
45. Stockton on Tees Borough Council,
46. The Energy Poverty Research initiative
47. the Environment Centre (tEC)
48. The Wise Group
49. Utilita
50. Welsh Government
51. Worcestershire CC
52. Individual responses (9 responses received)

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