

Warm Home Discount (England and Wales): response to draft eligibility statement

To: Department for Business, Energy and Industrial Strategy

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF's guiding principle is that policy should be fair to all – the old, the young and those to come.

This letter is a response to the Warm Home Discount eligibility consultation run by the Department for Business, Energy and Industrial Strategy. IF welcomes the opportunity to comment on these criteria and would like to raise the following points in relation to the proposed thresholds.

1. IF supports the expansion of the Warm Home Discount to more working-age families

Record-high inflation continues to push up the cost-of-living to the extent that many households are already having to make impossible decisions between purchasing food and/or energy. This dire situation will significantly worsen with the arrival of winter when energy prices are already estimated to rise again with the projected increase of the energy price cap in October.

IF therefore supports the uplift of the Warm Home Discount from £140 to £150 and the widening of the eligibility criteria to include more working-age households. The expanded list of qualifying benefits and the household size equivalised income thresholds will ensure many more families are eligible, thereby providing targeted support for working-age households struggling with poverty this winter.

However, IF would like to make BEIS aware of two intergenerational fairness objections: the first being different requirements imposed on different generations; and the second being the regressive nature through which it is funded.

2. Different generational eligibility criteria

IF primarily takes issue with the discrepancy in eligibility criteria along generational lines. Anyone claiming the Guarantee Credit element of Pensioner Credit is automatically eligible for the Warm Home Discount regardless of their estimated energy costs. In contrast, working-age households must prove that they have high estimated energy costs even when they are on low-incomes.

As IF understands the Warm Home Discount, the intention of the policy is to shield those at most risk from cold-related diseases and to provide support for those in fuel poverty. While it is true that, in general, older people are more vulnerable to cold-related illnesses, they already receive other support to address this through Winter Fuel Payments and Cold Weather Payments.

The degree of success can be seen in statistics showing that fuel poverty rates among working-age households, especially those with children, are now significantly higher than in pensioner households. BEIS data from 2018 show that households where the oldest member is between 16 and 24 years of age are the most likely to be in fuel poverty, as are households where the youngest member is below 16.¹

¹ UK Government (2022) BEIS "Annual Fuel Poverty Statistics in England, 2020 (2018 data)": https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/882404/annual-fuel-poverty-statistics-report-2020-2018-data.pdf

Given the prevalence of fuel poverty among working-age households, IF does not agree that working-age people on low incomes should have to meet the additional criterion of “high energy bills” to qualify for the discount. The aforementioned reduction in fuel poverty among pensioners is a remarkable policy success which IF believes should be available to any household on low incomes rather than restricted largely by age. Removing the “high energy costs” requirement of the Warm Home Discount would be a positive policy step towards further extending this much-needed support to working age households.

3. Regressive funding structure

IF also believes that the funding scheme for the Warm Home Discount is regressive. The rebate is funded not through HM Treasury but through a levy on customer bills, estimated to have added an average of £19 to each household’s bill in 2021. This is a regressive means by which to fund such policy as energy demand is income inelastic – households in the top income ventile consume slightly less than double (a factor of 1.9) the amount of household energy than the bottom ventile,² despite a tenfold pre-tax income disparity.³

This means that those on higher incomes pay a significantly lower proportion of their income than do those on lower incomes. IF would like to highlight that such regressive taxation is a poorly designed way to fund redistributive policy. Intergenerationally unfair cases will certainly arise where money is taken from young low-income households (that do not currently qualify under the energy bill requirement) and redistributed to low-income pensioner households.

This intergenerational inequity would be slightly alleviated by removing the high energy requirements for low-income homes. However, IF believes a better approach would be to reform the way the discount is funded. The Warm Home Discount should be funded by HM Treasury through progressive taxation, rather than customer fuel bills. IF believes that this funding should come from taxation of wealth rather than earned income, as it would share the burden of taxation more evenly throughout the generations.

4. Proposal: remove the high energy costs criteria for Core Group 2

IF feels that the eligibility proposals will successfully extend the Warm Home Discount to more working-age families, which the organisation supports. However, the proposals implicitly favour brick-rich cash-poor pensioners over younger income-poor households. IF suggests that the high energy costs requirement should be removed for Core Group 2, leaving only the “low-income” requirement. IF believes that this adjustment would provide much needed financial support to low-income working-age households during the cost-of-living and energy crisis.

If you would like to learn more about the work of the Intergenerational Foundation or would like to organise a meeting to discuss the points we raise, please contact:

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² Owen, A. and Barret, J. (2020) “Reducing inequality resulting from UK low-carbon policy”:
<https://doi.org/10.1080/14693062.2020.1773754>

³ UK Government (2022) HM Revenue & Customs “Percentile points from 1 to 99 for total income before and after tax”:
<https://www.gov.uk/government/statistics/percentile-points-from-1-to-99-for-total-income-before-and-after-tax>